

INSPECTOR GENERAL'S MESSAGE

Over the last months, Secretary Cuomo has engaged the Department in devising a comprehensive plan for HUD management reform. From the OIG's vantage point, it appears that the Secretary is focusing on the right issues and is prepared to make the bold changes needed within the Department. At this writing, however, the management reform plan has not been put in final form. In the meantime, this Report to the Congress paints much the same management picture as our last Report to the Congress: some improvements have been made, but progress is slow, and the Department's systemic weaknesses have not been directly addressed.

The Secretary has also pledged to fight waste, fraud, and abuse in HUD programs. The OIG heartily welcomes the support of the Secretary in this regard. This Report details a number of ways that the OIG is already aggressively pursuing fraud, waste, and abuse in HUD programs.

- With the support of the Congress and the Administration, Operation Safe Home is having a tremendous impact: settlements and judgments of \$55.4 million in funds that had been illegally diverted from HUD insured multifamily housing; 110 indictments and 91 convictions for fraud in the administration of public housing; over 220 coordinated law enforcement task forces targeting violent crime in public housing; and 320 witnesses to violent crime relocated to enable their testimony in court.
- The OIG's wide-ranging audit program is disclosing major, nationwide problems in HUD programs and operations, while still focusing on individual situations of concern to OIG and HUD program staff. As demonstrated by this Report, we are committed to seeing that the problems we identify get remedied, rather than languishing in bureaucratic process.
- Despite the increase in workload associated with Operation Safe Home anti-violent crime work, the OIG's investigative function continues to identify myriad white collar crime schemes affecting HUD operations. The impact of these disclosures will certainly increase, as the OIG deliberately targets broader and more sophisticated schemes.
- In meeting our statutory obligation to prevent as well as detect problems, the OIG is making a major investment in identifying potential weaknesses in proposed legislation, rules, and notices of fund availability. Further, for the second time, we have developed OIG legislative proposals to correct serious problems disclosed in OIG audits and investigations.

The substantial body of work documented in this Report reflects a highly skilled, knowledgeable, and independent OIG staff who are dedicated to seeing that HUD funds produce the intended results. With HUD's downsizing and the devolution of responsibilities to states and localities, we expect to confront ever greater challenges. We will need the continued support of the Congress and the Secretary to meet them.

Susan Gaffney
Inspector General

HUD Management Issues

During this period, the OIG issued reports on the Fiscal Year (FY) 1996 financial statements of the Government National Mortgage Association (GNMA), the Federal Housing Administration (FHA), and HUD as a whole. These reports not only address the traditional financial audit issue of whether the financial statements are presented fairly, but they also assess the adequacy of the entities' internal control systems and compliance with laws and regulations. These audits are discussed in this Chapter.



Our financial statement audits provide a comprehensive evaluation of Departmental management. Results for the current reporting period, in summary, were as follows:

- An outside accounting firm engaged by the OIG found that the GNMA financial statements were presented fairly in all material respects. Further, the audit found no material internal control weaknesses, nor any material instances of noncompliance with laws and regulations.
- The same outside accounting firm found that the FHA financial statements were also presented fairly in all material respects. However, the audit identified material weaknesses in FHA's system of internal controls and reported that FHA was not in strict compliance with the Credit Reform Act of 1990.
- The OIG expressed a qualified opinion on HUD's consolidated financial statements due to two exceptions. This is the first time in our 6 years of auditing these statements where we did not disclaim an opinion. The audit also identified a series of material weaknesses in the Department's systems of internal controls, and concluded that the Department was not in full compliance with the HUD Reform Act, or, as noted above, the Credit Reform Act of 1990.

Qualified Opinion on HUD's Financial Statements

The following paragraphs discuss the qualified opinion and the exceptions to the reliability of the HUD financial statements, as well as the other internal control weaknesses disclosed in the FHA and HUD financial statement audits. OIG Auditors found that HUD's consolidated financial statements were reliable in all material aspects, except with respect to HUD's estimate of excess rental subsidy payments, and the fact that required Government Accounting Standards were not followed for FHA's loan programs.

Excess Rental Subsidy

HUD currently spends more than \$19 billion annually in rent subsidies to assist over 4 million low-income households through a variety of programs, including Public Housing and Assisted Housing. While tenant income is a major factor affecting eligibility and the amount of the subsidies, admission and subsidy determinations are almost entirely dependent on self-reporting.

The OIG has consistently reported on the lack of controls over subsidy payments. In the past, it was a reason for OIG to disclaim an opinion on the financial statements. For the past three financial audits, OIG has urged HUD to obtain a reliable estimate of the amount of the excess subsidy payment.

For the 1996 financial statements, HUD performed computer income matching with federal income tax data to determine the magnitude and effect of underreported and unreported tenant income. HUD statistically sampled tenants from its automated data bases and matched their reported income with federal tax data in Social Security Administration (SSA) and Internal Revenue Service (IRS) data bases. Based on the results of the computer income matching project, HUD statistically projected that the amount of excess rental subsidies was \$409 million, plus or minus \$122 million, during calendar year 1995. HUD then extrapolated these results to the entire universe of assisted households, which yielded an excess rental subsidy estimate of \$538 million, plus or minus \$161 million.

While we support HUD's computer matching efforts, we believe the estimate of excess subsidies is understated primarily due to data limitations. The 3.2 million households in HUD's two data bases represent about 76 percent of the estimated 4.3 million households that received housing assistance during 1995. As a result, HUD's statistical projection of excess housing assistance payments applies to only 76 percent of the households receiving assistance, and HUD's



extrapolation of this projected amount of excess subsidies to the entire universe is not statistically valid.

The statistical estimate of excess subsidy assistance was also limited to households in the two data bases with unreported household income of \$3,000 or more. HUD selected this threshold with the belief that smaller income differences would have little, if any, effect on the housing assistance and rental subsidies, and that additional sampling efforts based on a smaller threshold would not result in a significantly more accurate estimate of excess rental subsidies.

However, for purposes of estimating the effect of tenant misreporting for the financial statements, it is entirely appropriate to use a lower threshold. In fact, at the initial meetings on the project, the OIG suggested using a \$1,000 threshold.

Finally, the estimate of excessive subsidy payments does not reflect potential unreported income from SSA's Supplemental Security Income (SSI) Program. The SSA/IRS income tax data files did not include payments from that program because SSI payments are not taxable income. While HUD has argued that such amounts are relatively insignificant, in our judgment, insufficient evidence has been provided to us to demonstrate that excluding these payments would not have a material effect on HUD's estimate. We have concluded that the estimate is understated and not entirely statistically valid for the reasons listed above, and we were unable to apply sufficient procedures to determine their effect on HUD's estimate.

FHA Financial Data

In reporting on the mortgage insurance programs of the FHA, HUD's principal financial statements were not prepared in accordance with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*. This requires that agencies estimate and report cash flows relating to loans and loan guarantee commitments made after September 30, 1991, and that such cash flows be accounted for on a present value basis. FHA's mortgage insurance programs are presented in accordance with private sector *generally accepted accounting principles* (GAAP), which significantly differ from the reporting requirements of SFFAS No. 2. FHA, as a government corporation, prepares separate financial statements in accordance with GAAP. However, the Office of Management and Budget (OMB) has determined that HUD's Departmentwide financial statements are to conform with SFFAS No. 2. Because HUD had not prepared the data required for inclusion in its financial statements, we were unable to apply any procedures with respect to such information and were unable to determine the nature and extent of any differences that would result by reporting FHA's programs in accordance with SFFAS No. 2.

Material Internal Control Weaknesses

Despite improvement efforts, HUD still suffers from material weaknesses in its financial management systems, resource management, and program monitoring/ FHA loss mitigation activities. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material to a HUD program may occur and not be detected. Taken together, these problems seriously undermine the ability of HUD staff, no matter how dedicated and hard-working, to carry out HUD's mission in a reasonably effective and efficient fashion.

Financial Management Systems

HUD's approach to systems planning and implementation has achieved some success. The Federal Financial System (FFS)



has been fully implemented for Salaries and Expenses Funds. Increasingly functional versions of the Office of Housing's Tenant Rental Assistance Certification System (TRACS) have been implemented at all field locations. HUD's Central Accounting and Program System (HUDCAPS) for Public and Indian Housing's (PIH) Section 8 Programs has been implemented at all field offices. Over 150 Community Planning and Development (CPD) grantees are now using the Integrated Disbursement Information System (IDIS) on-line to support consolidated planning, disbursements and reporting requirements. The rest of the grantees are scheduled to be on-line by the end of this year. FHA implemented an electronic data interchange system to process and pay single family insurance claims, and an Internet connection for lenders to check the status of their mortgages.

Despite these accomplishments, progress remains slow. After investing over \$100 million on systems integration projects over the last 5 years, the Department still relies mainly on legacy systems, i.e., those already developed and now becoming obsolete, for financial management and program support. Delays in implementation have been largely attributable to a combination of funding constraints and a continuing need for program management's stronger commitment to systems development and better project management. Program officials responsible for systems integration also indicated that data conversion has been another delaying factor.

Another challenge to HUD's future systems integration efforts will be to maintain consistent and adequate funding in a downsizing environment. A final challenge may be that systems requirements could change once final decisions are made on restructuring HUD and its programs. Once those decisions are made, some currently planned information and financial management systems may not be needed and/or there may be a need for completely new systems.

Below is a summary of the status of systems integration efforts being tracked by the OIG.

➤ *Systems with Operating Components*

Office of Housing's TRACS (budgeting and accounting for project-based rental assistance programs)

HUDCAPS for PIH's Section 8 Programs (budgeting and accounting for tenant-based Section 8 rental assistance programs)

HUDCAPS for Departmental Administrative Financial System

PIH Integrated Business System (IBS) - Project Funding and Development

➤ *Systems in Pilot Testing/Limited Use*

CPD IDIS

PIH - Tenant Eligibility Verification System (TEVS)

➤ *Systems Under Active Development*

Agency Accounting Interfaces

PIH IBS - Project Funding and Development (Capital Fund, Indian Block Grants)

PIH IBS - Customer Service Management

PIH IBS - Evaluation and Review

Office of Housing's FHA Mortgage Insurance System (FHAMIS) - Single Family Premium Collection

FHAMIS - Data Warehouses for Single Family, Multifamily, Hospital Insurance, and Staff Profile

➤ *Systems in the Planning Stage*

Budget Formulation/Operating Planning (Unfunded)

Grants Management

PIH IBS - Project Funding (Operating Subsidies)

HUDCAPS - Agency Accounting System

FHAMIS - Multifamily



FHAMIS - Comptroller

In addition to the need to complete integration of accounting and financial management systems, the Department must address a number of system concerns.

Although HUD has made progress in implementing its systems plans in some program and administrative areas, other areas lag far behind. Most notably, Multifamily Housing system improvements are still in the planning phase, with the exception of TRACS.

In completing a nationwide income matching effort, the Department found errors and missing data in the Multifamily Tenant Characteristics System (MTCS). HUD must rely on this system for tenant income verification. Additionally, HUD is developing a remote monitoring initiative that will also rely on MTCS.

The Department is making a concerted effort to develop TRACS as the solution to address weaknesses in the financial control of project-based rental assistance programs administered by the Office of Housing. However, the payment processing module has not been built. This module will enable TRACS to generate rental assistance payment requests directly without voucher data from the owners, thereby preventing duplicate payments and helping to ensure accurate owners' submission of tenant data.

PIH needs to continue development of important enhancements for Section 8 Programs, such as automated budget projection for renewals and cost amendments, and budget formulation. However, the development schedule has not been established.

The Department has not followed through on its commitment to use the FFS software as the foundation for building an integrated financial system. A decision on the approach for system integration must be made. Some users of the current accounting and disbursement systems (Program Accounting System (PAS) and Line of Credit Control System (LOCCS)) are advocating for significant enhancements of these legacy systems. In fact, two program areas (CPD and Housing) are funding custom extensions of LOCCS to support their needs rather than using HUDCAPS. The lack of direction in integration unnecessarily prolongs the need to maintain both the legacy systems and HUDCAPS, resulting in wasted resources and processing inefficiencies.

FHA's inability to quickly develop or acquire more modern systems will continue to hamper its efforts to be a more efficient and effective provider of housing credit. The progress of FHA's major systems integration effort, FHAMIS, has been extremely slow. A contributing factor is the large scope of FHAMIS, which includes enhancing and maintaining legacy systems, as well as developing new systems and building four data warehouses. FHA has limited capacity to manage an effort of this magnitude, and could fall even further behind after FY 1998, when its authority to use the insurance fund for systems activities ends.

A number of deficiencies in FHA's financial management systems reported in prior years have not been corrected. FHA still does not have an effective system that provides sufficient information regarding the credit quality of individual multifamily loans. This makes assessing and quantifying credit risk difficult and prevents efficient, ongoing reporting of credit risk to senior management. The general ledger and subsidiary systems for FHA must also be enhanced to facilitate better case level reporting and compliance with Credit Reform. Finally, information concerning FHA operations by program, geographical area, or other relevant components is insufficient to serve management needs.

There is a continued need to protect all sensitive and critical systems under the security software already purchased for HUD's mainframe systems. While HUD continues to make progress in this area, its systems are still not fully protected. Access to critical and sensitive financial systems must be limited to users with legitimate need and proper screening so as to minimize the risk of systems errors, failures, and unauthorized use.

Resource Management



HUD's administrative resources have declined without a corresponding reduction in workload or modification in program delivery systems. Since 1980, HUD's authorized full-time equivalent staff has decreased 37 percent, from 16,500 to 10,434. Moreover, HUD is targeted to reach a staff level of 7,500 by FY 2000. Yet, since 1980, HUD has not only experienced growth in many of its existing programs, but has added a number of new activities.

HUD needs to deal with inevitable staff decreases by completing development of a comprehensive strategy to manage its resources. In formulating its budget, HUD does not identify resource needs based on a detailed analysis of program functions, processes and anticipated workloads. Actions to achieve resource management have not been fully implemented and many actions are in the planning stage, have not yet been legislated, or will require negotiation with employee unions. Plans have continued to change during the last 2 years. In fact, the Congress required HUD (P.L. 104-134) to prepare a reorganization strategy by September 30, 1996, but the strategy is still in the planning phase.

Our audit work continues to attribute lack of performance to a lack of resources. Only with appropriate resource management can staff be held accountable for lack of action. HUD's efforts to more effectively utilize its available resources will continue to be hampered until there is:

- Greater clarity in HUD's program delivery structure and the role of HUD staff in that structure.
- A stable organizational structure which is appropriate for HUD's program delivery structure and role.
- A systematic means of matching resource levels and capabilities with program needs.
- A systematic means of measuring productivity and results.

HUD has not reached the level of resource management necessary to achieve these results.

The Department is currently reviewing a resource estimation and allocation system (REAP) which will be used to support budget decisions and customer service. REAP descriptions seem to offer the detailed analysis of what resources are needed to complete tasks. However, if resource management is to improve, REAP should be used not only to cover the mechanical need to allocate resources but to hold individuals accountable for completing work based on the resources provided. The Department must be able to disclose in budget submissions what activities can and cannot be done and the potential risks/ramifications of those decisions.

Progress made during FY 1996, according to the Deputy Secretary, includes:

- The "Community-First" field structure/delivery system is being developed and tested.
- Headquarters was reduced by 117 full time equivalents (FTE) and about 600 field employees have been redeployed. Further redeployment will be based on a review of staffing imbalances in field offices and the impact of planned consolidations and downsizing initiatives.
- Seventeen offices were conceptually identified for closure. Operation consolidations have been



completed or are planned as follows:

- All single family work will be consolidated into three Homeownership Centers in Denver, Atlanta and Philadelphia by FY 1999.
- All field accounting work currently performed in 10 offices will be consolidated into three accounting centers by FY 1998.
- Implementation has been completed for the consolidation of field administrative services in three Administrative Service Centers and one Employee Service Center.
- An initial review of opportunities to contract/outsource functions has been completed, but management decisions are still needed.
- "Model Offices" that use state-of-the-art technologies and other supports to enhance customer service were piloted in four field offices. Evaluation of the pilot is ongoing for possible replication at other field offices.

Program Monitoring and FHA Loss Mitigation Activities

HUD provides grant and subsidy funds to public and Indian housing authorities (PIHAs) and multifamily project owners, which, in turn, provide housing assistance to benefit primarily low-income households. Weaknesses exist in HUD's control structure and the effectiveness of its monitoring such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

- *Improvements are needed in multifamily project monitoring to ensure that subsidy funds are appropriately spent.*

The Office of Housing needs to improve the effectiveness of multifamily project monitoring and monitoring of State Housing Finance Agencies (SHFAs) that administer assisted housing contracts on HUD's behalf. While HUD has continued to use contractors to assist in performing project monitoring functions and has continued to develop tools for managing the assisted housing portfolio, we found that the monitoring of multifamily projects is still inadequate to assure that subsidies are provided on behalf of tenants who meet HUD eligibility requirements and that these subsidies ensure decent, safe and sanitary housing. Also, HUD's monitoring of Section 8 contract administration by the SHFAs continues to be inadequate.

HUD subsidy funds are provided to approximately 33,000 private and nonprofit project owners. Unlike most other HUD programs, these subsidies are provided through direct contracts with multifamily project owners; there is no PHA or local government intermediary. Since there is no intermediary, HUD has more responsibility for ensuring that project owners provide support only to eligible tenants and that they comply with the contract and program laws and regulations. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

Overall, we found that project monitoring of troubled and potentially troubled assisted projects was inadequate. We noted audited financial statements were not submitted and physical inspections, management reviews and occupancy reviews were not performed by the field offices. In addition, field offices were not adequately following up to resolve identified deficiencies.

- *Monitoring of insured mortgages must place more emphasis on early warning and loss prevention.*

The timely identification of troubled insured mortgages is a key element of FHA's efforts to target resources to mortgages that represent the greatest financial risk to FHA. As troubled insured mortgages are identified, the initiation of effective asset management techniques by well-trained specialists can mitigate eventual claims or the increased costs associated with servicing non-performing insured mortgages. Although FHA has made progress monitoring troubled and potentially troubled projects, the inventory of these projects remains high. Additionally, deficiencies identified during



Internal Control Reportable Conditions

physical inspections and management reviews are not followed up conscientiously. Plans to continue the Special Workout Assistance Team (SWAT) efforts could cure some projects. However, it should be noted that SWAT efforts can accelerate claim filings against FHA, leading to further increases in workload of field personnel. Apart from the material weaknesses in HUD's system of internal controls, the audits of HUD's consolidated financial statements and the FHA financial statements identified several other reportable conditions. These reportable conditions are significant deficiencies in the design or operation of the internal control structure. The first two conditions reported were material weaknesses in prior years' reports, and HUD's actions to improve performance resulted in our reclassification of these areas to reportable conditions. A summary of these reportable conditions is as follows:

➤ *FHA must continue actions to quickly resolve Secretary held mortgage notes and minimize additional mortgage note assignments and note servicing responsibilities.*

Despite the progress made on reducing the inventory, the total unpaid principal balance remains high. FHA must continue its current initiatives to quickly resolve its portfolios of Secretary held mortgage notes through sale, portfolio reengineering, restructuring, workout, or some combination of these, and to minimize additional mortgage note assignments. Servicing and managing defaulted mortgage notes assigned to FHA require considerable staff time and divert scarce resources from monitoring the insured portfolio.

➤ *The Office of Public and Indian Housing needs to continue efforts to improve PHA monitoring.*

In 1996, HUD completed a number of initiatives designed to strengthen its control structure and improve oversight of PHA operations. However, problems remain with the reliability of the performance and compliance data used by HUD to evaluate PHA operations. Also, performance evaluation factors do not effectively address the overall quality of public and assisted housing. We continue to have a concern with the Public Housing Management Assessment Program (PHMAP) process in that HUD's controls do not assure the integrity of the scores, which we believe HUD needs to address to provide assurance that PHAs provide safe, decent, and sanitary housing and protect the federal investment in their properties. (See Chapter 5 under "Other HUD Directives," *On-Site Confirmation of PHA Performance*.)

➤ *HUD needs to continue efforts to develop improved performance measures.*

We reported in prior years that there was a lack of performance information included in HUD's annual reports. Specifically, the performance information that was included emphasized input measures, e.g., how much money was spent or future spending requirements, or simple output measures, e.g., number of households subsidized or number of units built, rather than the effectiveness and efficiency with which program goals were being achieved, i.e., outcome measures. There were very few measures about how effectively HUD's programs were meeting their statutory or strategic missions or how efficiently HUD delivered its services. For example, of the 43 proposed FY 1998 performance measures developed during FY 1996, it appears that for about 30 or 70 percent of the measures, HUD neither collected the data nor fully defined the measure. However, HUD has negotiated and received approval from OMB on its FY 1998 performance measures.

➤ *HUD needs to be more proactive in implementing its Management Control Program.*

Controls for ensuring Front-End Risk Assessments are conducted were not in place in FY 1996. Further, HUD has neither demonstrated proactive efforts for assessing risks in ongoing programs nor established adequate oversight of the audit resolution process.



➤ *The Office of Housing needs to continue ongoing efforts to improve its subsidy payment process.*

In 1996, HUD established the Voucher Processing Hub (HUB) in Kansas City as part of the Kansas/Missouri State Office of Housing. It provided a centralized processing center for the receipt and review of Section 8 vouchers and household certifications for 14 field offices. Except for the HUB, we found that most field offices did not provide adequate testing of paid vouchers and the voucher review process did not provide an adequate internal control over Section 8 payments.

➤ *The Office of Community Planning and Development needs to complete implementation of its new strategy for overseeing grantees.*

CPD's new process for overseeing grantees was not fully implemented during FY 1996. An important step in this process, which calls for review and validation of performance reported by grantees, was either not performed or efforts in this area were not adequately documented. Therefore, CPD could not ensure that grantees were only expending funds on eligible activities and individuals.

➤ *HUD needs to improve systems security and other controls.*

Additional improvements are needed to fully protect information processed and stored on HUD's mainframe computers. The already purchased security software should be implemented to control access to all data files and programs to minimize the opportunity for intentional or unintentional unauthorized access. Unscheduled disaster recovery tests and simultaneous tests of multiple applications should also be conducted. A third improvement is to use the already purchased automated tool to control software changes for systems such as HUDCAPS on the IBM compatible mainframe.

➤ *Further efforts are needed to strengthen HUDCAPS access controls.*

Additional access controls are needed to fully protect HUDCAPS. Access to critical HUDCAPS tables must be restricted to reduce the chance of accidental or deliberate unauthorized changes. Another access control needed is to restrict user access to two security profiles. The third control needed is a periodic certification of all users so that employees no longer needing access are prevented from unauthorized use of the system.

➤ *HUD needs to continue efforts to close projects under the PIH Low-Rent Loan Program.*

HUD's trial balance reported \$1.4 billion in unexpended debt service budget authority related to the PIH Low-Rent Loan Program. HUD is unable to fully support this amount because its funds control and disbursements systems for the program were not integrated when a substantial amount of the project activity occurred. As a result, HUD does not have reliable data as to its remaining contractual commitments nor is the Department able to determine the correct amount of unexpended debt service budget authority that can be rescinded under this program.

➤ *Personnel Security Program at HUD Needs Strengthening.*

Background investigations were not performed for some individuals with high level access to HUD's critical information systems. The Department needs to enforce the requirement for program office systems administrators and security officers to identify the sensitivity levels of computer system users, operators and/or managers. This process is essential to ensure that individuals with high levels of systems access receive proper background investigations.

Operation Safe Home

Operation Safe Home focuses on three major types of wrongdoing that undermine HUD programs and ultimately affect the residents of public, assisted and insured housing. The principle areas of focus are: violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing.

Initiated in February 1994, Operation Safe Home differs from traditional OIG work in that it is highly targeted and proactive; it employs non-traditional techniques; and it represents a long-term, sustained commitment to reducing the targeted vulnerabilities. Through the creative and aggressive efforts of our personnel, criminals have been jailed, monies have been recovered, and changes have been made to programs that will hopefully eliminate the potential for future wrongdoing.

Violent Crime in Public and Assisted Housing

Despite the huge investment of federal dollars, many public and assisted housing developments have become major breeding grounds for violent crime — with law-abiding residents, many of them elderly, locked in their homes, terrorized by gangs and drug activities. During the last 3 years, Operation Safe Home has pursued its goal of focusing the attention of federal, state, and local law enforcement on violent crime in public and assisted housing. OIG Special Agents are actively participating on new and ongoing task forces. We are also continuing to provide witness relocation services and are working with HUD program staff, housing authorities, housing managers, and residents to reduce the opportunities for criminal behavior.

The federal agencies cooperating with Operation Safe Home include the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service, (USMS), the U.S. Postal Inspection Service (USPS), the U.S. Customs Service (USCS), the U.S. Immigration and Naturalization Service (INS), the Internal Revenue Service (IRS) and the Department of Justice (DOJ). In addition to federal involvement, law enforcement personnel from states, counties, cities and housing authorities are also participating in Operation Safe Home.

This reporting period, the Attorney General announced the designation of six addition cities — Kansas City, Memphis, Greensboro, Atlanta, Newark, and Boston — where U.S. Attorneys will lead collaborative efforts to reduce violent crime in public housing. This second round of priority city designations reflects the considerable results being attained through U.S. Attorney-led initiatives in San Francisco, Philadelphia, Chicago, Detroit, New Orleans, and Washington, DC.

The following describes task force operations as well as a sample of the witness relocation efforts during this 6-month reporting period:



Task Force Operations

Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Arrested	1,546	11,813
Seized		
Weapons ¹	187	1,626
Cash	\$291,500	\$2,734,000
Drugs ²		\$21,600,000
Search Warrants	170	1,412

¹ Includes 17 assault weapons and shotguns seized during this reporting period, for a total of 180 to date.

² Estimate based on measurable quantities seized.

California

Operations at several developments under the jurisdiction of the SACRAMENTO Housing and Redevelopment Agency resulted in 12 arrests and the seizure of a gun, \$1,250 in cash, and more than a pound each of cocaine and marijuana. In one instance, a suspected narcotic activity was witnessed during surveillance at a Section 8 unit. When the Sacramento Police attempted to stop the vehicle used by these individuals, the passenger fled the vehicle and a foot chase ensued. A loaded handgun was recovered and the individual, an ex-convict, was arrested. We are working with the Sacramento Housing and Redevelopment Agency to evict those residents involved in criminal activities.

In an operation in TRACY, two individuals were arrested after narcotics were bought at a nearby business that was owned and operated by a resident of public housing. Search warrants, served at both their business and residence, resulted in the seizure of 5 weapons, approximately \$10,000 in cash and methamphetamine valued at \$4,000. In addition to selling narcotics, the resident was not declaring business income in order to qualify for Section 8 assistance. The resident was referred to the San Joaquin Housing Authority for eviction. This operation was handled primarily by the Stockton and Lodi Police Departments, Stockton Sheriff Department, San Joaquin County District Attorney's Office, and the OIG.

In SAN FRANCISCO, undercover operations and crime suppression activities by the San Francisco Police Department Housing Task Force and Sheriff's Department, USMS, ATF, and OIG, at several public housing complexes and assisted housing developments, resulted in the arrest of 26 individuals on various charges. Drugs, including crack cocaine, marijuana, heroin, powder and rock cocaine, 2 weapons, a vehicle, and over \$3,800 in cash were seized during these operations.

Three search warrants executed at different locations in LOS ANGELES resulted in the arrest of six individuals. One of the arrestees was a suspect in an armed robbery at a public housing development. In another operation, a search warrant resulted in the confiscation of a marijuana plant and 49 packages of marijuana at a public housing development. The individual was arrested in connection with unlawful drug trafficking in south central Los Angeles. A total of 8 weapons, close to \$2,000 in cash, and cocaine and marijuana were seized during these operations. The Los Angeles Police Department and Housing Authority Police, FBI, and the OIG were involved in these operations.

Following several months of undercover drug operations in targeted areas of OAKLAND, which were video taped as evidence, a warrant round-up that lasted about 30 hours resulted in the arrest of 85 of the 138 individuals identified as



conducting the drug deals. The local police and housing authority, the State Youth Authority and the OIG cooperated in this effort.

As a member of the North County Task Force, OIG Special Agents participated in the gang identification program developed by the DALY CITY Police Department. During this operation members of the Task Force responded to preassigned areas of the county in an effort to identify locations and individuals associated with known San Mateo county gangs. These gangs are responsible for most of the drug trafficking in the public housing developments throughout the county. This operation resulted in the arrest of five illegal aliens with criminal histories. Other members of this Task Force include the Police Departments from Daly City, South San Francisco, San Bruno, Colma City, and Pacifica, the San Mateo County Probation Department, the California Department of Corrections, and the INS.

The LOS ANGELES City Housing Task Force, an ongoing joint effort between our Office and the Los Angeles Housing Authority, was responsible for the arrest of 42 individuals during this reporting period. Three of those arrested were members of two separate street gangs. This Task Force, targeting 8 specific public housing developments, also seized 12 weapons, over \$1,900 in cash, numerous pieces of electronic equipment, and quantities of drugs that included cocaine, marijuana, phencyclidine (PCP), codeine, and flurazepan.

In PALM SPRINGS, undercover operations, involving ATF, OIG, Palm Springs Police Department and Cochella Valley narcotics Task Force, focused on the Sunnyview Villa multifamily housing development and a Section 8 development. Of the 29 individuals arrested, several were known members of the *Gateway Posse Crips* street gang. Search warrants netted 10 weapons, drugs including over 200 grams of cocaine and 48 grams of methamphetamine, and \$2,000 in cash.

Colorado

In the summer of 1996, a collaborated effort, titled the Crofton Project, was initiated by the DENVER District Attorney's Office, DEA, the Denver Police Department and Sheriff's Department, OIG, INS, and the U.S. Attorney's Office. They agreed to concentrate law enforcement efforts in an area that is saturated with drug dealers who openly deal within 1,000 feet of the Crofton Elementary School and the Curtis Park public housing development. Between November and March, four operations were conducted within the designated Save Neighborhood Action Plan (SNAP) area of DENVER. Of the 20 individuals arrested on drug charges, 3 will be processed through the federal system as part of the Crofton Project.

In THORNTON, 7 individuals were arrested during a warrant sweep of a 100 percent subsidized Section 8 complex. As part of an ongoing operation funded by Operation Safe Home and the DOJ, an intelligence analysis identified 35 residents as having outstanding warrants. In December, the Thornton Police issued a press statement saying that a joint initiative, involving DOJ, OIG, and the Thornton Police Department, was gaining the upper hand on crime in the HUD housing developments in the south side of the city. Two additional officers were hired, using DOJ funding, to exclusively patrol the high-density housing and HUD Operation Safe Home funds are being used to support aggressive law enforcement initiatives. By utilizing warrant sweeps, surveillance and extra police, 30 problem residents have been removed from housing and a resident and her juvenile daughter were arrested on charges of possession of stolen property and a controlled substance. Efforts are underway to introduce community policing models, working with the residents and management to focus on an anti-gang strategy in the developments.

Three members of a Los Angeles Crips gang were arrested in AURORA. They had been using a HUD subsidized apartment to "cook" cocaine into crack cocaine. The resident involved panicked and turned over 2 ounces of crack to law enforcement officials. Arrests were made by the Aurora Police Department and our Office.

Connecticut



A sweep by the State Police, NEW BRITAIN Police Department and our office culminated a 6-month investigation into narcotics activities within the Mt. Pleasant neighborhood. Twenty-nine individuals were arrested on various charges, including the sale of narcotics within 1,500 feet of public housing.

The Federal Gang Task Force in HARTFORD continued their operations with the arrest of 50 individuals on numerous drug charges. Several were known gang members who live in a densely populated Section 8 neighborhood. Two were intercepted when they were depositing suspected drug proceeds into a local bank. The Task Force used surveillance, interdiction and intelligence operations and motor vehicle stops, in addition to the execution of search and arrest warrants, to achieve the above arrests.

In addition to the current arrests, four individuals, previously arrested by this Task Force, were sentenced for their criminal activity. Two were sentenced to life without parole and a third received three life sentences for their involvement in crimes at the Stow Village and Charter Oak Terrace public housing developments. Their crimes involved several murders, including that of a 7-year old child, racketeering and trafficking narcotics. The fourth individual, a convicted felon, was sentenced to 21 months in prison that will run concurrently with his current state sentence plus 3 months probation for possession of a firearm. The Task Force is comprised of the Hartford Police Department, the State Police, OIG, and the FBI.

District of Columbia

Following a 5-week undercover operation, which resulted in the arrest of 8 dealers and the execution of 3 search warrants in the NORTHEAST section of the city, the U.S. Attorney for the District, the Chief of the Metropolitan Police Department, and HUD Inspector General announced a major initiative to combat violent crime in the Montana Terrace public housing community. The initiative will serve as a test of the community and government to restore, redesign and rejuvenate some of the worst public housing in the City. The initiative includes a 24-hour, 7-days a week law enforcement presence at the development and the neighboring assisted housing community of Brookland Manor. The ultimate goal is to link aggressive law enforcement strategies with HUD efforts to modernize and sell a town house complex to the residents, along with the development of a business site adjacent to the property.

Warrants, developed from previous operations that targeted illegal street drug trafficking activities in areas of the SOUTHEAST quadrant of the city that includes two public housing complexes, were executed in early dawn raids. One weapon, two vehicles, cash, and cocaine were seized. Eighteen individuals were arrested. This operation was part of the FBI Safe Street Task Force, of which we are an active part.

Twenty-two years in prison, 3 years of probation, \$5,000 in restitution and a \$180 fine were levied on a member of the *LeDroit Park Crew*, a gang located in the Kelly Miller public housing development in the NORTHWEST section of the City. Charges included attempted murder of a federal informant, use of a firearm during the commission of a violent felony assault, possession of a firearm during a crime of violence, and carrying a pistol without a license. HUD Special Agents were deeply involved in this investigation and prosecution along with the ATF, USSS, and the Metropolitan Police Department. We produced and controlled evidence, witnesses and confidential informants, provided witness relocations, and gave agent testimony at the trial.

The post enforcement committee for the Kelly Miller public housing community reported a high level of participation in the Resident Training Program. Under a contract with the DC Housing Authority, students from Howard University provide about 260 families and senior citizens with services focusing on housekeeping responsibilities. The students are also helping the school-age children with their homework and other educational/recreational activities. The Housing Authority is refurbishing a basement at the development for these activities and the University also made available a classroom and lounges at their science complex.



HUD has also selected the area of the city in which Kelly Miller is located for major block grant economic revitalization. Post-enforcement committee members agreed to pursue a public/private funding of a community center.

In addition to these activities, the most encouraging information received during this reporting period is that the Housing Authority Security stated that there was a 40 percent reduction in all crime as a result of our Operation Safe Home initiative.

As part of the Youth Awareness Program, DEA Agents and one of our Special Agents are working together at two separate locations in the District. They are mentors to about 15 school-age children at the Charles Young Elementary School and are part of a pilot community policing project at the Montana/Brookland Manor Apartments. A workshop was held at the school to prepare the children for their first field trip. It focused on the choices people make in life and the consequences of those choices. The first field trip with the children was to the Prince George's County, MD Adult Correctional Facility. They were given a tour of the facility and were able to interact with inmates and their counselors. The mentoring program meets weekly and provides both workshops and outings to augment and enrich the learning patterns of these children.

Florida

The MIAMI Safe Home Task Force, comprised of OIG Special Agents and Officers from the Dade County Police Department, arrested five individuals at the Scott Homes public housing complex. One of the individuals was arrested on murder charges, the others for possession with intent to sell. The eviction process was begun following the execution of a search warrant at the murder suspect's unit at the complex, where 10 people were found to be living.

Georgia

As members of the Metropolitan ATLANTA High Intensity Drug Trafficking Area Task Force (HIDTA), our Special Agents and officers from the Atlanta Police Department were responsible for apprehending 36 individuals in several operations during this reporting period. The major operations occurred in the northwest section of the City called "The Bluffs" where the drug trafficking, especially heroin distribution, is controlled by the *New York Boys* street gang. Covert surveillance activities as well as observation posts and road blocks were used to deter the drug trafficking. One of the individuals arrested was a fugitive and a member of the *New York Boys*. Quantities of crack cocaine, heroin, and marijuana were seized during three of the operations.

A member of the *Miami Boys* street gang was sentenced to 62 months in prison for distribution of narcotics. The gang controlled the illegal drug trade in several public housing developments, maintaining their control through violent acts, such as drive-by shootings, that resulted in several deaths and injuries. Three federal agencies, DEA, ATF and HUD, worked together in this investigation.

A crime prevention gang seminar, jointly sponsored by our Southeast/Caribbean Office, the Macon Housing Authority and several local social service agencies, was well received by the MACON area youth and their parents. The 2-day seminar was filled with workshops and panel discussions. The highlight of the seminar occurred when the youth attendees posed questions concerning gang violence to a panel comprised of one of our Special Agents, an ATF Agent, the Superintendent of Schools, the Executive Director of the Housing Authority, and an Officer from the Police Department.

Illinois



The HIDTA in CHICAGO arrested 15 individuals in two night tactical operations at the Robert Taylor public housing development. The Chicago Housing Authority Police Department Tactical Team and HUD Special Agents, who were responsible for this operation, also seized four weapons, crack cocaine, and marijuana from the lobbies of the development. In a separate operation, a HUD Special Agent made several undercover drug purchases that resulted in two arrests during a buy/bust operation. The HIDTA is an ongoing Task Force involving the U.S. Attorney's Office, Cook County State Attorney's Office, FBI, DEA, ATF, OIG, USMS, State Police, Chicago Police Department and the Chicago Housing Authority Police.

Operation Stormy Monday, a 6-month undercover operation targeting criminal activity at the Cabrini Green, Wentworth Gardens and other public housing complexes along the State Street corridor, culminated in an early morning round-up of 65 individuals. The operation, made possible by a \$100,000 grant from OIG, dealt a serious blow to drug sales at these sites. The Chicago Police Department and Housing Authority Police, DEA, ATF, USSS, FBI, HUD OIG, and the State Police were involved in this operation.

Operation Blue Tornado, a 7-month undercover operation, targeted three major street gangs who controlled portions of CHICAGO Housing Authority properties. In an early morning round-up, 95 individuals were indicted and/or arrested following over 100 hand-to-hand drug buys that were video and audiotaped by undercover officers. Six guns and over 500 grams of crack cocaine and heroin were seized. The targeted gangs were the *Vice Lords*, *Traveling Vice Lords*, and the *4 Corner Hustlers*. The Chicago Police Department and Housing Authority Police, DEA, ATF, USSS, FBI, OIG, and the State Police are actively involved in this ongoing effort against crime in Chicago Housing Authority properties.

HUD Special Agents in CHICAGO participated in the Operation Global Sea Task Force's investigation of an international heroin smuggling and distribution ring. In October, the Attorney General and the U.S. Attorney's Office in Illinois announced the arrest of 48 members of the ring that was run predominantly by Nigerian women. Approximately \$100,000 was seized during the operation. Task Force members served search and arrest warrants in CHICAGO, while others were sought and/or arrested in Bangkok, Paris, New York and Detroit. The ring operated out of a woman's boutique and public and assisted housing units on the north side of the city. Of the 48 arrested, 31 were in the Chicago area, which was the major distribution center for the China White heroin that was smuggled into the States through Guatemala and Mexico. OIG, DEA, FBI, INS, USSS, IRS, and the USMS comprised the Task Force.

Indiana

The Northwest Indiana Violent Crime Task Force executed a search warrant at a storage facility in GARY that was being used as a "stash house" by a large scale narcotics trafficker. A member of the *Vice Lords* gang who controlled drug sales in the Delaney public housing complex was arrested and 31 grams of cocaine and a weapon were confiscated. The gang received bulk quantities of cocaine where they processed it into crack and then resold it. The ATF; DEA; OIG; IRS; Gary, Hammond, and Portage Police Departments, and the Lake County Sheriff's Department comprise the Task Force.

Louisiana

The NEW ORLEANS Task Force, comprised of the ATF, DEA, OIG, USSS, USMS, New Orleans Police Department and Jefferson Parish Sheriff's Department, arrested 363 individuals, 203 at public housing developments and 160 in assisted housing areas in the City. Seizures during these operations included 48 guns and knives, approximately \$43,600 in cash, more than 1,450 grams of cocaine, crack cocaine, heroin and marijuana, and numerous items of drug paraphernalia.

Because of the number of arrests being made by the New Orleans Task Force, we anticipated that evictions from public and assisted housing would increase accordingly. However, that did not happen. Over a 17-month period, approximately 1,200 individual arrests were made but only 43 evictions were initiated. At the same time, the Housing Authority is able to process approximately 560 evictions monthly for nonpayment and successfully evict 36 each month. A



limited OIG review of the Housing Authority's eviction process was completed in March. We found that, although the Housing Authority is using a new lease that allows them to evict a resident if he/she or any family member or guest of the resident is involved in specific criminal activity, the Housing Authority's policy still allows management discretion on the action to be taken on a first offense in a 12-month period. Another problem related to the low eviction process rate appears to be identifying individuals as residents or part of a household on the lease. These areas, in particular, need to be improved in order for the Authority to strengthen its eviction policy for those involved in drugs and criminal activity. (Report No. 97-FW-201-1804)

Eighty-one fugitives were arrested in SHREVEPORT following a 20-day crackdown on crime in federally funded housing. The USMS, FBI, U.S. Attorney's Office, Shreveport and Bossier City Police Departments, Louisiana Office of Probation and Parole Office, Shreveport City Marshal's Office, Bossier Parish Sheriff and Police Jury, the Shreveport and Bossier City Housing Authorities and OIG Special Agents were involved in this operation. Both Housing Authorities are aggressively pursuing eviction actions against those residents arrested.

Maryland

A month-long undercover operation targeting a LANDOVER neighborhood known for its open air drug market and violence was completed during this reporting period in conjunction with the Prince Georges County Police Department and the DEA. Ranked as the second most crime-ridden area by the Prince George's County Police Department, the neighborhood includes a number of HUD assisted housing sites. Ninety individuals were arrested, including one individual from another state who had his 7-month old baby in his station wagon when he was attempting to buy crack cocaine.

Following a 5-month investigation, search and arrest warrants were issued at a sporting goods shop and two apartments in East BALTIMORE. The owner of the shop and an employee, who is a convicted felon, were arrested and charged with selling weapons without proper documentation. Many of these weapons ultimately ended up in public housing developments. A total of 85 weapons were seized along with the shop owner's license to sell guns. This operation was executed by the HIDTA Task Force that included our Special Agents and Officers from the Baltimore County Police Department.

At our request, University of Maryland Graduate Students for Urban Planning conducted a study of the relationships between crime and HUD housing in Prince George's County. Their analysis took into consideration such characteristics as school age children, female headed households, poverty levels, and non-white populations, and used 1995/1996 crime data and 1990 census data which was geographically coded countywide in relation to the location of public and assisted housing, including assistance by Section 8 vouchers.

In a preliminary briefing, the students explained that their analysis established that high crime occurred in areas where there was a high number of school age children, female headed households and poverty. There was a strong correlation between high crime and assisted housing. No similar trend was found with public housing. Comparisons with bordering Montgomery and Ann Arundel counties found dramatically lower crime rates. The students found that although families received Section 8 portable vouchers, they were clustered heavily in low-income housing areas with high crime.

Through recent OIG post enforcement actions, the Prince George's County Police Department received Operation Safe Home funding that they used for dedicated high visibility patrols at two assisted housing complexes. These complexes had been the target of a joint initiative involving our office and the local police department. In his opening remarks at a recent press conference, the State's Attorney for Prince George's County praised the efforts of our Special Agent and credited these patrols with reducing crime at both sites.

Massachusetts



A search warrant executed by the DEA, ATF, OIG, the State Police, and Tauton and Mansfield Police Departments resulted in the arrest of 31 individuals and the seizure of heroin, marijuana, and crack, as well as \$2,000 in cash. The arrests concluded a 4-month undercover operation that was concentrated in the Fairfax and Riverside public housing developments in TAUTON. Ten of those arrested were residents of the housing complexes.

Three months of undercover narcotics buys by the WORCESTER Drug Task Force resulted in seven search warrants executed at the Great Brook Valley public housing complex. Nine individuals were arrested and seven families face eviction. Following this law enforcement effort, the Task Force members sponsored Operation Trick or Treat that included a children's Halloween party and free t-shirts for the residents. In addition to the Worcester Police Department and OIG, the DEA, ATF, and the Massachusetts State Police are members of this Task Force.

Michigan

Seizure of 2 weapons, 3 vehicles, \$423 in cash, 39 grams of crack cocaine, and 25 arrests brought to completion one phase of the investigation by the Crack Ridge Task Force into crime in three assisted housing complexes in TAYLOR. A second month-long operation resulted in 17 arrests and the seizure of 9 weapons, \$3,144 in cash, 1 vehicle, and 286 grams of crack cocaine and marijuana. The Task Force includes the Taylor Police Department, ATF, and OIG.

Following warrant sweeps in various YPSILANTI public and assisted housing developments that produced 38 arrests, our Special Agents, together with the Ypsilanti Police Department and Washtenaw County Sheriff's Department, began post-enforcement activities. At the Park Ridge Homes public housing development, they arranged for the opening of a new day care facility and free flu vaccines by the Neighborhood Health Clinic and St. Joseph Mercy Hospital. In December the first Cub Scout pack was formed; troop leaders and volunteers include the local Police Department and OIG. There will be weekly meetings, organized sports, and education activities as part of this effort.

Minnesota

Agents from HUD and the MINNEAPOLIS Police Department's Housing Authority Enforcement Team arrested two individuals and seized a gun and drugs from three units in the Findley Place subsidized apartments. The HUD program staff is initiating action to ensure the eviction of these residents and require management to better supervise and maintain these residences.

Missouri

Our Special Agents and the KANSAS CITY Police Department executed three search warrants involving a project-based Section 8 property. Two individuals were arrested and marijuana was seized. Following the searches, the Special Agents and HUD Asset Management staff met with the project manager to start the eviction process and development of a strategy for improving the property.

Nebraska

The OMAHA Fugitive Task Force, comprised of the Omaha Police Department, the Douglas County Sheriff's Office, OIG, USMS, FBI, and the State Police, arrested six public housing residents and two non-residents on drug and robbery charges. These arrests occurred after the names of persons sought on outstanding warrants were indexed and compared with those of Omaha public housing residents. OIG sponsored the effort that originally matched 35 individuals; 25 were arrested and their cases resolved in previous reporting periods.



As part of an investigation into the activities of the *Lomas* street gang, an undercover operative successfully infiltrated the gang to gather evidence of their illegal activities. The gang has been responsible for drive-by shootings and home invasion robberies in and around public and assisted housing in the South OMAHA area and is known to receive drug shipments directly from Mexico. The gang is also reported to have strong ties to the Mexican Mafia. The evidence gathered by the operative was used to make this investigation part of the ATF Organized Crime Drug Enforcement Task Force.

In March, led by OIG and ATF, agents and officers from the Bellevue and Omaha police departments successfully conducted two “reverse sting” operations that resulted in the immediate arrest of two gang affiliates and the seizure of drugs and several weapons. In addition, undercover contacts revealed that both female members and the parents of members are engaged in international drug smuggling. The gang has been responsible for numerous criminal activities, including shootings and robberies, in and around public and assisted housing in the City.

New Jersey

Information provided by a confidential informant to the NEW BRUNSWICK Anti Crime Unit and our office aided in the arrest of 9 individuals and the issuance of a search warrant on one individual’s home and car. One arrestee, a public housing resident, travels between New Jersey and Baltimore, MD, to distribute drugs. Based on his arrest, he is being evicted under the “One Strike And You’re Out” policy. Another individual was charged with aggravated assault of a Police Officer after he struck one of our Special Agents while being apprehended for the sale of heroin at a public housing development. The individual was convicted after the Agent testified before the grand jury.

New York

Operation Triple Play, a 90-day investigation, culminated in one of the largest law enforcement initiatives in the history of NEW YORK CITY. It was created to dismantle three large drug gangs operating in and around Jose de Diego Beekman (assisted housing) and Mill Brook, John Mitchell and Mott Haven (public housing) developments. The 67 individuals arrested were members of 12 drug gangs who were responsible for a total of 18 homicides since 1989, 2 attempted murders, and several violent assaults, and who netted proceeds of about \$100,000 a day from selling drugs. Twenty-three search warrants and multiple arrest warrants were executed at 33 locations in the BRONX and MANHATTAN. HUD Special Agents from the New York and Boston District Offices participated in the warrant sweep and assisted in inspecting over 60 vacant units at the Diego Beekman complex that were used as crack dens and stash houses. In January, at the 40th Precinct’s annual community council award ceremony, the New York City Police Commissioner presented awards to the OIG and other major participants in this operation. Those participants included the FBI, ATF, USSS, DEA, USMS, OIG, New York Police Department (NYPD) and State Parole Office.

Since the inception of the STATEN ISLAND Task Force in January 1997, 48 individuals have been arrested, 2 guns seized, 12 cloned cellular telephones recovered, and over \$2,000 in cash and quantities of cocaine, heroin and marijuana confiscated. In one operation, members of the Task Force, organized by OIG, participated in a sting operation against the *New York Boys* gang. The gang operated around the General Charles Berry and South Beach public housing developments and the Tysens Apartments, Park Hill and Fox Hill assisted housing developments. Seventeen arrests were made and 50 “baggies” of cocaine, a gun, several vehicles and over \$1,600 in cash were seized during a two-phase operation. Phase I involved beeping members of the gang to arrange for the sale of drugs to undercover officers. After the sales were completed, the gang members were allowed to leave the area and felony vehicle stops were conducted. Three members were arrested during this phase. Phase II involved using the confiscated pagers, a cellular phone and vehicles to arrange drug deals with the gang’s customers. These customers were mostly Section 8 program participants. Fourteen additional arrests were made after the drugs and money changed hands. The Task Force is comprised of the NYPD, USSS, USPS, Staten Island Narcotics Unit and Housing Bureau, and the Army National Guard.



In a separate operation, search warrants executed on a drug dealer's residence in Section 8 assisted housing and two other known drug locations in the Stapleton public housing development resulted in the arrest of 14 individuals.

In addition to our Special Agents, this Task Force includes several precincts and divisions of the New York Police Department, the USSS, USPS, and the Army National Guard Counter-Drug Unit. We are targeting guns, gangs, cloned phones and drug trafficking in and around seven public housing developments and two assisted housing developments on Staten Island.

North Carolina

Operation Safe Home funds were used to support a 6-month undercover operation in GREENSBORO that resulted in the arrest of 29 individuals, all of whom had prior felony convictions. Special Agents from HUD and DEA and Officers from the Police Department Narcotics Division were involved in this operation. The OIG Agents later met with the Executive Director of the Housing Authority and the HUD program staff in Greensboro to ensure that the public housing residents who were arrested will be evicted.

Ohio

Operations throughout the State resulted in the arrest of 63 individuals during this reporting period. The largest included operations in TOLEDO, where the Fugitive Felon Project targeted wanted felons who were living in HUD subsidized housing or were receiving welfare benefits in Lucas County. The Task Force, comprised of the Lucas County Sheriff's Office and Metro Housing Authority, Northwest Ohio Violent Crime/Fugitive Task Force, the State Auditor's office, and the Social Security Administration and HUD OIGs, identified 68 fugitives wanted for crimes such as homicide, drug trafficking, aggravated assault and carrying concealed weapons. Thirty-six individuals were arrested in this operation.

The NEWARK Police Department, OIG, ATF, and the Licking County Sheriff's Department, in conjunction with the Central Ohio Drug Enforcement Task Force, were responsible for the execution of search and arrest warrants in NEWARK and RUSHVILLE. They also confiscated 5 weapons, \$4,000 in cash and 3 motor vehicles. At the conclusion of one operation, the members of the Task Force went door-to-door explaining Operation Safe Home and handing out pamphlets to the residents of the Washington Square Apartments.

The leader of the *Short North Posses* was convicted and sentenced to 27 years in prison in COLUMBUS after being charged with eight counts of aggravated drug trafficking, firearms and conspiracy in and around public and assisted housing. This is the last of the 47 gang members to be convicted. This operation began in 1992 and involved the ATF and the OIG. Our goal was to reduce violent crime and the proliferation of weapons in Columbus area public and assisted housing. Since this effort began, 121 individuals have been indicted; 57 arrested, including 4 suspected of murder, and 49 convicted. The *Short North Posses* was one of several gangs targeted by this operation.

In a separate operation, four individuals who were wanted for murder were arrested. Two lived in assisted housing and two lived in Section 8 housing. The cases will be brought before the State grand jury where two will be charged with aggravated murder and aggravated robbery; two will be charged with aggravated robbery and involuntary manslaughter.

In WARREN, OIG, ATF, and the Trumbull County Sheriff's Department's Drug Task Force executed 2 search warrants at the Fairview Gardens Apartments, Hilltop and Highland Homes public housing complexes. Prior to the searches, 22 individuals were indicted on charges of aggravated drug trafficking. Four of the 11 arrested were members of the *Jamaican Posse* street gang.

Oklahoma



Prosecutive resolutions are beginning to be reported on a previous operation in TULSA. In that operation, 163 individuals were arrested and charged with 196 drug and weapons violations. During this reporting period, four individuals have pled guilty or were convicted by a jury trial. The Tulsa Task Force is comprised of the ATF, OIG, U.S. Attorney's Office, Tulsa County District Attorney, and the City Police Department.

Pennsylvania

OIG Special Agents worked with the DEA and the EASTON Police Department on a 6-month investigation that included surveillance and videotaping of drug buys. During the investigation, more than 60 drug users were identified and arrested on state charges. Their testimony and the evidence seized led to the arrest of 38 individuals on federal charges of possession of crack and powder cocaine in and around public housing developments. In addition to the arrests, 500 vials of crack cocaine, 4 ounces of unpackaged cocaine, 2 vehicles, 3 radio transmitters and \$10,000 in cash were seized. In support of the operation, the Easton Housing Authority provided four apartments and HUD provided a single family home for use by the investigators in the targeted area.

Warrants, obtained following an undercover operation last summer that included controlled purchases of heroin and crack cocaine by undercover operatives, were executed in CLAIRTON. Special Agents from three of our District Offices participated with more than 30 other Agents/Officers from DEA, the State Bureau of Narcotics, and the Clairton Police Department in the execution of 19 arrest warrants in and around two public housing developments. Eleven arrests were made and a weapon, \$16,500 in cash and a vehicle were seized.

The PHILADELPHIA Violent Traffickers Task Force, comprised of the DEA Task Force, OIG, FBI, ATF, and the PHILADELPHIA Police Department, developed evidence on the ongoing sale of illicit narcotics by several drug dealers located in and around the Martin Luther King Plaza, a public housing complex with approximately 5,000 residents. During this reporting period 4 new arrests were made, \$300 in cash and numerous drugs were seized, including 80 bags of crack and marijuana.

A joint operation that included the DEA, OIG, the PITTSBURGH Police Department and Housing Police executed five search warrants and seven arrest warrants at the St. Clair Village public housing community. A gang known as the "06" controlled the drug traffic in this community. Four members and two residents were arrested in an early morning raid; a fifth member surrendered to the Housing Police a few hours later. Two weapons, cash, drugs, a ballistic vest, and a gang scrap book were seized during the raid. Photographs and newspaper clippings of the shootings that the gang was involved in were part of the scrap book that was seized.

Approximately 80 children attended Operation Safe Home Day at the Bright Hope public housing development in POTTSTOWN. Bright Hope was the recent target of local law enforcement because of the frequent sale and distribution of illegal drugs by street dealers. The day included a seminar on the dangers of drug abuse and a martial arts demonstration by two of our Special Agents. Prize drawings, games and physical fitness programs were sponsored by the National Guard Counter Drug Unit and the Montgomery County DARE program. Food and prizes were furnished by the Montgomery County Housing Authority and the County Commissioner's Office.

Puerto Rico

Thirteen gang members were arrested by members of a Task Force in BAYAMON and federally indicted for distribution of drugs and use of firearms. This gang is responsible for selling over 5 kilos of heroin and cocaine in public housing developments. As a result of two previous operations, the four ring leaders of the gang are currently serving life sentences. The Task Force is comprised of DEA, OIG, and the Puerto Rico Justice Department.



Rhode Island

Our Special Agents attended the first Operation Safe Home summit convened by HUD's State office. The goal was to explain how the law enforcement strategy helps build safe and livable public and assisted housing developments. More than 40 representatives of local public housing authorities and assisted housing managers were urged to work with community residents and local law enforcement to fight drugs and guns. At the end of the summit, those in attendance resolved to work more closely to keep criminals from fleeing into assisted housing after being removed from public housing by Operation Safe Home activities. They also agreed to increase screening and eviction activities to keep criminals from entering their developments.

The NEWPORT Task Force, comprised of OIG, U.S. Naval Criminal Investigative Service, and the Newport Police Department, concluded its 6-month narcotics operation. Ten arrests were made in and around three public housing developments. Charges included the delivery and possession of narcotics.

As part of Operation Trifecta, a Task Force led by OIG, several Agents sponsored a basketball contest at a day-long "Safety Day," sponsored by the WOONSOCKET Housing Authority. The event was held at a park adjacent to the Veterans Memorial public housing development that has been the focus of recent law enforcement operations. Approximately 100 families enjoyed a variety of activities that also included pony rides, an egg toss, dunk tank and a tug-of-war. The local Police and Fire Departments, the State Police, and staffs from the Center for Domestic Violence and a Program for English as a Second Language also participated.

South Dakota

Twenty-one indictments resulted in 15 arrests following covert operations in the Safe Home Neighborhood Action Plan (SNAP) area of RAPID CITY. The focus of this operation included the Lakota Community Homes, a 198-unit FHA insured subdivision that is also Section 8 assisted. DEA, OIG, and the Rapid City Division of Criminal Investigations were responsible for these operations.

Tennessee

Task forces continue to actively pursue criminal activity in Tennessee and cases are being resolved by the courts. Operations during this reporting period occurred in NASHVILLE, MEMPHIS, PARIS, and HUNTINGDON. Sixty-six individuals were arrested and 9 weapons, approximately \$8,500 in cash, more than 16 ounces of cocaine, and 27 pounds of marijuana were seized. Of those arrested, 8 were sentenced to a total of 37 years incarceration, 13 years probation, and \$8,000 in fines. In addition, in Paris, 21 of the 22 arrested have been convicted and are awaiting sentencing. These operations included a variety of agencies such as ATF, USSS, OIG, FBI, IRS, and both County and City law enforcement.



Texas

As a result of an Operation Safe Home round-up that occurred in DALLAS public housing in June 1996, 171 State felony drug cases involving 61 individuals have been pursued by the County District Attorney's Office. Thirty-seven individuals have been punished with sentences ranging from time in prison to probation and fines. In one case, an individual was sentenced to 30 years in prison following a plea agreement. This Task Force was composed of OIG and the Dallas Police Department.

The OIG HOUSTON Operation Safe Home Task Force, comprised of OIG, ATF, DEA, and the Houston Police Department, is currently focusing on drugs and violent crimes in the Kelley Village public housing development. Four individuals have been arrested on various federal and state narcotics charges. Phase I of the Houston initiative, concentrating on crimes in the Irvinton Village public housing development, resulted in 12 persons indicted and convicted on federal charges and 15 on state drug charges.

Utah

Evictions are pending for those residents of Lincoln Avenue, a public housing complex, who were arrested in an operation in ODGEN. A total of 25 individuals were arrested. Prior to the actual arrests, an undercover operative identified those individuals who were involved in drug activity in the area. In addition, information that was developed through this investigation that led to the arrest of several individuals responsible for burglaries and a drive-by shooting in the complex. Our Special Agents worked closely with the Weber/Morgan Narcotics Strike Force and the Ogden City Housing Authority on this operation.

Washington

Five evictions occurred in public housing complexes as a result of the residents' prior criminal history. During the course of separate operations in TACOMA, CHEHALIS, and AUBURN, our Special Agents alerted the management agents that particular residents had criminal backgrounds. These operations also resulted in the arrest of eight individuals and the seizure of several weapons, cash, numerous drugs, drug paraphernalia and several vehicles. In one operation, a resident refused to allow entry to an apartment. It required an hour of negotiations before the wanted felon opened the door and was arrested. In another, the resident of a subsidized apartment and two of his visitors were arrested. Gang and drug paraphernalia and graffiti were found in the unit. One of the individuals is a well known member of the *Hilltop Crips*, who just recently had been released from prison. Also involved in this operation was the FBI, ATF, USPS, and local city and county Police Departments.

Wyoming

Two federal search warrants were executed in conjunction with a controlled delivery of drugs via the U.S. Mail to CASPER. One warrant executed at a private residence resulted in the arrest of the resident, who was responsible for supplying a large amount of methamphetamine into the local area. The second warrant obtained in Denver, CO for a U.S. Express Mail package destined for Casper yielded \$7,500 in cash. This investigation is being jointly conducted by the USPS, DEA, OIG, State Investigators and Casper Police Department, in an effort to curtail drugs in publicly funded housing in Casper.

Witness Relocation



To assist in the successful prosecution of individuals committing violent crimes in public and assisted housing, we undertook the responsibility of finding new housing for witnesses who are providing information against those individuals and fear reprisals. As a result of the *Balanced Budget Downpayment Act of 1996*, that authorized the use of Section 8 assistance for witness relocation purchases, the Secretary made approximately 200 rental vouchers available for this purpose.

During this 6-month reporting period we relocated 25 families, bringing the total assisted since we began to 320.

Examples of relocations this period are as follows:

- At the request of an Assistant U.S. Attorney, an FBI informant on a bank larceny case who was also a public housing resident was relocated. A second relocation was made at the request of the ATF because both witnesses were at risk from retaliatory activities.
- In October we assisted the local police and District Attorney with the relocation of seven individuals who were witnesses to several homicides that occurred in public housing complexes in one city.
- The common law spouse of a witness who is cooperating with several DEA investigations was relocated to temporary public housing. The witness will furnish testimony that may solve a least one local homicide.
- An individual who conducted drug buy operations for a local police department was relocated to a public housing unit after receiving death threats. The individual is a key witness in a case being pursued by a local police department.

Fraud in Public and Indian Housing Administration

- After threats of bodily harm against a single mother and her children, the U.S. Attorney and DEA officials requested relocation assistance. The mother is scheduled to be a witness in a federal drug trial involving several drug dealers, including one who dealt drugs from a HUD assisted housing complex.



Fraud and abuse in the administration of HUD's Public Housing Programs erode public support and detract from the scarce resources available to provide better living conditions for residents. While most of the 3,400 housing authorities across the country are well managed, our audits and investigations continue to disclose embezzlement, bribery, kickbacks, bidding irregularities, false claims, conflicts of interest, and other instances of program abuse.

In addition to formal audits and investigations, OIG probes are used to identify potential fraud and abuse. Probes are designed to quickly survey housing authorities for indicators of such activities. As a result of the work done over the past 2 years, we identified a need for housing authorities to establish fraud prevention programs. To assist them in this effort, our Office of Audit developed a brochure that provides ways to establish controls and prevent the types of abuses identified below. A copy of the *Guidelines for Public Housing Authorities to Prevent, Detect and Report Fraud* was sent to every housing authority in the country. We also provided each housing authority with posters with the necessary information for reporting fraud to our offices across the country. These posters were provided in two languages, English and Spanish, and are intended for posting in areas within the housing authorities where both residents and employees can see and use them.

Since the inception of Operation Safe Home, the number of indictments and convictions has increased.

Summary of Results

Activity	Current Report Period	Cumulative to Date
Indictments	8	110
Plea Agreements/Convictions	18	91
Sentences Imposed	15 months	647
Fines/Restitutions	\$32,296	\$1,607,607

Connecticut

A fraud investigation conducted by OIG, the State Attorney's Office and the U.S. Attorney's Office resulted in the appointment of a court-ordered receiver, placing a public housing development in NORWALK into receivership. This action stemmed from an investigation into narcotics trafficking and repeated violation of HUD's Housing Quality Standards. The complex is a non-HUD insured moderate rehabilitation complex of 163 Section 8 project based units. An independent company was appointed as receiver and manager of the complex until further action from the U.S. District Court.

Georgia

A lead-based paint testing contractor was indicted for falsifying the results of lead-based paint testing at the CANTON Housing Authority. The indictment stemmed from an OIG investigation initiated after reports that the contractor had falsified test results at other public housing agencies. Program officials were notified of the falsified test results and the contractor was immediately suspended.



Louisiana

Following a joint investigation by the FBI, OIG, and the State Police, the Executive Director of the EAST BATON ROUGE Housing Authority resigned his position and pled guilty to misuse of the Authority's funds. The charges involved unauthorized use of the Authority's funds for personal business and paying the leases for the equipment that he used for his privately owned lead-based testing facility. No further judicial proceedings have been scheduled.

Michigan

The administrator of the DETROIT Housing Authority and two associates were sentenced for their participation in a scheme in which they solicited and received bribes in return for placing individuals on the list to receive Section 8 housing. The administrator was sentenced to 6 years incarceration and each of the associates was sentenced to 1 year incarceration or the option to serve that time at the Metro Detroit halfway house. The FBI and Detroit Police Department participated with us in this joint investigation.

Montana

In a negotiated plea agreement, an employee of the FORT BELKNAP Credit Department admitted that while she held a position of trust as an Escrow Agent/Loan Processor, she wrote checks to herself for over \$5,000 from HUD funded accounts. She was sentenced to 3 years probation and ordered to pay \$5,000 in restitution and a small fine. The investigation was conducted by the HUD and Department of Interior OIGs and the Bureau of Indian Affairs.

New Jersey

A contractor who admitted accepting \$250,000 from an IRVINGTON Housing Authority official and kicking back \$100,000, even though he did no work, was sentenced to 5 years probation. He was also ordered to make restitution of one-fifth of his gross earnings over the next 5 years. The contractor testified for prosecutors in the 1995 trial of an Authority employee who was convicted of conspiracy and embezzlement. This was a joint investigation with the FBI.

New York

An administrative assistant with the GLEN COVE Housing Authority was sentenced after pleading guilty to stealing rent payment checks from residents and depositing them into her personal bank account. She was ordered by the court to make restitution directly to the residents from whom she stole, sentenced to 12 months conditional discharge, and ordered to pay a \$100 fine. This joint investigation was conducted by the OIG, the USPS, and the Special Investigations Bureau of the Nassau County District Attorney's Office.

Ohio

A corruption probe of the ASHTABULA Metropolitan Housing Authority uncovered forged and counterfeited bids for various repair contracts that were used to create an appearance of competition. The contractor was found guilty and is scheduled to be sentenced in U.S. District Court. The probe was conducted jointly by our Offices of Audit and Investigation.



South Dakota

The former comptroller of the SIOUX FALLS Housing Authority was sentenced in federal district court after negotiating a plea agreement following the theft of program funds. Our Office of Audit established that the theft of funds occurred between 1990 and 1995. A joint investigation with the FBI followed the audit. The sentence included 3 months in prison, 2 years supervised release which begins with 3 months home detention with an electronic monitoring device, restitution of \$18,659, and a \$1,000 fine.

Tennessee

An investigation conducted by our Special Agents and the FBI resulted in a MEMPHIS Housing Authority employee being indicted and pleading guilty to soliciting kickbacks from a contractor doing business with the Housing Authority. The individual was sentenced to 16 months incarceration, 3 years supervised release and a \$3,000 fine. The individual accepted approximately \$3,200 for awarding the contractor a \$175,000 contract for the rehabilitation of a public housing development.

Virginia

An embezzlement scheme involving a former CHESAPEAKE Housing Authority employee and five other individuals was uncovered during an investigation of questionable checks that the employee had written. The scheme involved over \$100,000 embezzled from the Housing Authority. To date, in this joint investigation with the FBI, all six individuals have been indicted and four have pled guilty. One has been sentenced to a 2-year suspended sentence plus a period of probation, 100 hours of community service, and ordered to pay \$16,638 in restitution. In separate plea bargains, 2 individuals were ordered to make restitution in the amount of \$23,538 and \$19,526, respectively, and are awaiting sentencing.

A joint investigation by our Special Agents and the FBI disclosed a bid-rigging scheme at the WYTHEVILLE Redevelopment and Housing Authority that involved several employees. During this reporting period the former maintenance director pled guilty and was sentenced to 3 years probation and fined \$5,000 for his involvement. He assisted the former Executive Director and a contractor in their plan to have contracts awarded to one of several companies that the contractor owned, some existing only on paper. The Executive Director was sentenced during the last reporting period and the contractor involved was given immunity from prosecution for his cooperation in the investigation.

Equity Skimming in FHA Insured Multifamily Housing

Equity skimming is the willful use of any part of the rents, assets, proceeds, income or other funds derived from an FHA insured multifamily property during a period when the mortgage note is in default or the project is in a nonsurplus cash position for any purpose other than to meet actual or necessary expenses.



Apart from the fairly obvious financial losses that are incurred when owners collect rents but do not pay the mortgage, equity skimming generally has other insidious implications. Most notably, living conditions deteriorate for the residents when funds intended to maintain, replace, or repair living units are diverted for the personal use of owners.

Under Operation Safe Home, we have retooled the strategies and techniques for aggressive pursuit of equity skimming violations. We are using civil enforcement opportunities and streamlining referrals of civil cases to the U.S. Attorneys for prosecution. Referrals are now made directly by our auditors often without assistance from either the Department's Office of General Counsel or our Office of Investigation.

A Summary of Results

Activity	Current Reporting Period	Cumulative	Estimated Equity Skimming
Cases Identified	15	209	\$166,700,000
Cases Settled Prior to Litigation	9	61	41,600,000
Court Judgments	--	9	11,000,000
Criminal Convictions	3	13	2,800,000

California

Misuse of project assets contributed to the financial weakness and deteriorated physical condition of an apartment complex in SACRAMENTO. Our audit of the owner and management agent disclosed the improper use of over \$114,000 in project assets. This included over \$79,000 that was disbursed to an ownership entity, \$11,000 that was paid for excess interest on personal lines of credit, cash taken by the partners, and other excessive and unsupported expenses totaling more than \$19,000 that were charged by the management agent. (Report No. 97-SF-212-1001)

In SANTA MONICA, a multifamily management agent entered into an agreement with HUD to settle the questioned costs in our 1993 audit report. The agent had charged 21 projects for corporate salaries and related expenses that should have been paid from its management fee. Under the agreement the agent is to return \$2,393,535 to the projects and compensate HUD \$49,151 for its audit costs. The U.S. Attorney's Office negotiated the agreement on HUD's behalf. (Report No. 93-HQ-214-1004)



Connecticut

During an audit of a Section 223(f) project in NORTH HAVEN, equity skimming violations were found. The violations included distributions to the owner out of nonsurplus cash and an unauthorized mortgage on the property. The U.S. Attorney's Office has accepted this case for civil prosecution and is seeking twice the amount of funds diverted plus interest, attorney and auditing fees, a constructive trust on all project assets acquired in violation of the Regulatory Agreement, an injunction preventing the project owner from disposing of money or assets except for payment of applicable expenses, and an order transferring control of all project accounts and other financial accounts to a manager approved by the Secretary of HUD.

District of Columbia

Under the terms of a settlement agreement between the owners of three FHA insured apartment complexes and the government, day-to-day management and financial control of the complexes will be turned over to an independent management agent. In addition, the owners will repay all the monies diverted from the properties, established at \$850,000, plus an additional \$100,000 penalty. This is the result of a previous OIG audit that was referred to the U.S. Attorney's Office for civil litigation.

Illinois

As a result of an OIG referral, the U.S. Attorney in CHICAGO filed a complaint seeking recovery of double damages totaling over \$3.7 million plus interest and reasonable attorney and audit fees. The action was taken as a result of our audit which disclosed that the owners and management agent of a multifamily housing project incurred \$1.8 of ineligible and/or unsupported costs while the project was maintained in deplorable physical condition. Prior to the referral, HUD began depositing the project's Section 8 payments in a special escrow account controlled by the Department. They also sought and obtained assignment of the mortgage and possession of the project in order to remove the management agent, make needed repairs, and ensure the safety of the residents.

Our 1993 audit of six properties owned and/or managed by entities associated with a single firm in CHICAGO disclosed improper and unapproved disbursements of income or assets from each of the projects, in violation of the Regulatory Agreement. Under the terms of the negotiated settlement, the company wire transferred \$550,000 to the Department in full settlement of the claim.

Kentucky

The former management agent of a HUD cooperative housing project in LOUISVILLE was indicted by a federal grand jury for embezzling over \$200,000 from the project's operating account to open several checking accounts. He then wrote checks to pay for personal expenses such as homes, home furnishings, vehicles and vacations. The investigation was conducted jointly with the FBI.

Massachusetts

In ROXBURY, a limited audit of the financial operations of a HUD insured project disclosed that the owner withdrew over \$90,000 in project funds while the project was in a nonsurplus cash position. The withdrawals included advances to the management agent and ineligible or unsupported resident services. (Report No. 97-BO-219-1801)



Mississippi

In auditing a PHILADELPHIA multifamily development and its management agent, we found that the agent distributed approximately \$145,800 in project funds that were not necessary for reasonable operating and maintenance expenses while the project was in a nonsurplus cash position. The physical condition of the complex was below average due to the many uncorrected maintenance items. Estimated repairs total approximately \$448,000. The owner repaid the unauthorized distributions and has schedules in place to implement an effective preventive maintenance program. (Report No. 97-AT-203-1805)

Missouri

An OIG investigation, initiated on an anonymous complaint, resulted in the former management agent of two multifamily projects being sentenced to 15 months in prison and 2 years probation and ordered to pay \$275,813 in restitution for his involvement in equity skimming in KANSAS CITY. At a time when both projects were in a non-surplus cash position, the management agent used project funds for construction work done at non- HUD projects and for other personal expenses totaling over \$275,800.

The former director of a HUD insured project for developmentally disabled men in KANSAS CITY pled guilty to embezzling over \$258,000. The director used funds from the project to pay for personal expenses including trips to Hawaii and Florida for himself, his friends, and his family. The investigation was jointly conducted by the FBI, IRS, and the HUD and Department of Health and Human Services OIGs.

New York

In BUFFALO, our auditors found that the owner/management agent of a multifamily project did not comply with the provisions of the Regulatory Agreement pertaining to making distributions with only surplus cash and using project funds to pay only reasonable operating expenses. Approximately \$124,000 of ineligible distributions and unauthorized withdrawals were identified, as well as over \$390,000 in ineligible and unsupported costs. (Report No. 97-NY-212-1001)

North Carolina

Following our audit and subsequent investigation, the former owner/management agent of a multifamily project in MORRISVILLE entered a corporate guilty plea to one count of equity skimming and was fined \$125,000. The owner/agent used project funds to obtain personal loans, while the project mortgages, totaling over \$8.6 million, were in default. Following foreclosure, the project was sold by the Department at a loss of approximately \$2 million.

Pennsylvania

An audit of four HUD insured multifamily projects in PHILADELPHIA, owned and managed by the same individual, disclosed that the owner misused over \$191,000 in project funds, including unauthorized distributions of cash, advances to a non-insured project, excessive management fees and personal legal fees, and \$14,000 for unsupported miscellaneous costs. (Report No. 97-PH-2147-1005)

Puerto Rico

As a result of a joint review by our Offices of Audit and Investigation and the FBI, HUD repossessed a community



hospital in SAN JUAN and the owners pled guilty in U.S. Court to equity skimming. One of the owners admitted to diverting over \$6 million, which he used to make cash payments and no interest loans to himself, pay insurance premiums for himself and his wife, and buy five luxury vehicles. The original mortgage on the hospital was \$8.6 million and no principle mortgage payments had been made since the owner took over the property in 1991. The amount now owed on the mortgage is over \$18 million.

Rhode Island

During a review of the financial statements of a multifamily project in WARREN, we identified possible equity skimming violations by the project owners. These violations included unauthorized withdrawal of \$64,786 in project funds over a 4-year period while the project was in a nonsurplus cash position and the mortgage was in default, over \$50,000 loaned to the owners for personal dealings, and \$13,800 paid for health insurance coverage of the owners who did not work directly for the project. We referred this case to the U.S. Attorney's Office and a settlement was reached 3 days after that office issued a demand letter. The project owners agreed to repay \$100,000 in total equity skimming funds which includes over \$35,000 in penalties.

Texas

In HOUSTON, the U.S. Attorney's Office settled a double damages case against the former owners of a multifamily project with a HUD held mortgage. Our review of the project operations identified \$46,000 of diverted operating funds. In settling the case, the owners agreed to pay \$62,500 to HUD.

Utah

At the request of the HUD Rocky Mountains Multifamily Management Operations Branch, we audited the management agent of six HUD insured properties in HOOPER. The agent charged the projects for ineligible expenses, improperly distributed project funds to the owner, and did not establish adequate controls over project funds. The total amount of equity skimming is estimated at over \$800,000. Subsequent to the audit, the owner paid off the mortgages for all six properties. A limited denial of participation was issued against the owner in both Utah and Idaho where the owner has properties. (Report No. 97-DE-214-1001)



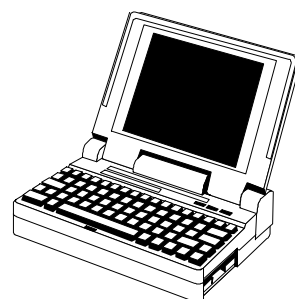
Audits

In addition to its financial audit work, reviews of legislation and regulations, and activities in support of Operation Safe Home, the OIG's Office of Audit continued its general oversight of HUD operations through various audits. During this reporting period, the Office of Audit issued 9 reports and 9 audit-related memoranda on internal HUD operations, and 23 reports and 22 audit related-memoranda on grantees and program participants. Cash recoveries, including those obtained under Operation Safe Home, amounted to \$14.7 million, with another \$16.1 million in commitments to recover funds.

Also during this reporting period, the Inspector General testified before the Congress on 29 cases of alleged fraud, abuse and mismanagement in Indian Housing Programs. Serious problems have been reported in both completed and ongoing OIG audits of these programs.

Some of the more significant audit results during this period include the following:

- An Indian Housing Authority's mismanagement of the Mutual Help Development Program caused low-income families to be deprived of homeownership opportunities, and program funds to be used to build a luxury home for its executive director.
- Because of excessive delays by HUD in the closure and financial settlement of completed development projects, over \$38 million of development funds were reserved but remained unused for up to 22 years.
- Investors and nonprofit borrowers made excessive profits and ineligible fees totaling \$4.5 million on 344 Section 203(k) Rehabilitation Home Mortgage Program loans.
- Delays in processing single family foreclosure actions could cause HUD to sustain more than \$2 million in losses.
- As of July 1996, HUD had paid out \$17.1 million in excess insurance proceeds for 82 multifamily insured housing developments, but has been successful in recovering only \$2.7 million of this amount.
- A Housing Rehabilitation Program grantee was at least 2 years behind in spending over \$2 million in federal grant funds.
- Only one-third of a \$630,200 grant received by an organization under the Homeless Program was spent on a computerized case management system as intended.



Public and Indian Housing Programs

Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe, and sanitary housing. During this reporting period, the Inspector General testified before the Congress on instances of fraud, abuse, and mismanagement in Indian housing programs, as reported in articles by *The Seattle Times*. We also reviewed the excessive delays in closure of development projects by the Southwest Office of Native American Programs and the Acquisition Method of public housing development. At the request of the former Secretary, we also reviewed the living conditions of Memphis Housing Authority residents, the progress made in operational improvements and deficiency corrections by the Philadelphia Housing Authority, and the recovery efforts at the San Francisco Housing Authority. Additionally, we audited various public and Indian housing authorities (PHAs) to determine their administration of the Low-Income Housing, Comprehensive Grant, and Tenant Opportunity Programs, and general administration, including rehabilitation and drug elimination efforts.

Indian Housing Programs

Congressional Testimony

During testimony before the Senate Committees on Indian Affairs and Banking, Housing, and Urban Affairs, the Inspector General (IG) discussed OIG findings on the 29 cases of alleged fraud, abuse, and mismanagement reported by *The Seattle Times* in December 1996. At the request of the Secretary of HUD, the OIG looked into all 29 cases and found that the newspaper's accounts of serious problems were generally accurate. The IG also noted that before publication of the newspaper articles, the OIG had work ongoing or completed on 17 of the 29 cases.

During her testimony, the IG discussed how HUD, the PHAs, and deregulation had contributed to the fraud, abuse and mismanagement in the program. Specifically:

- The Office of Native American Programs (ONAP) has created a culture and attitude of complacency about compliance issues because they do not take prompt action on early warning signs of problems. Also , ONAP staff do not sufficiently document their monitoring and technical assistance decisions and actions to show what they do and the assistance they provide to PHAs.
- PHAs have generally had problems with maintaining administrative capability to adequately provide and manage housing programs. Getting and keeping qualified staff has been a recurring problem. Difficult physical environments and limited economic opportunities also present significant challenges for many PHAs and Tribes in developing and maintaining housing. Finally, in many cases, especially where small population bases are involved, PHAs and Tribes are forced to deal with conflict of interest situations, favoritism and nepotism.
- The IG generally agreed with ONAP's position that the conditions reported in *The Seattle Times* were caused by existing program design, administratively incapable PHAs, and HUD's ineffective monitoring and technical assistance. However, deregulation did allow some abuses. Notably, when HUD permitted PHAs to set the sales prices on homes, it provided PHAs the opportunity to give houses away to certain homebuyers, to the detriment of other participants.

During testimony, the IG also expressed strong support for the principal provisions of the Native American Housing Assistance and Self-Determination Act of 1996, which the President signed into law in October 1996. She pointed out that in June 1995, we had recommended to the Secretary that HUD pursue a consolidation of its existing Native American Programs into a single flexible block grant that would alleviate administrative burdens and better serve Native Americans



in meeting their housing and community development needs. However, the IG suggested that the accountability aspects of the Act be reviewed in light of (1) the fraud, abuse, and mismanagement disclosed by *The Seattle Times*, as well as OIG audit and investigative work; (2) the fact that the Act is to be implemented by negotiated rule-making; and (3) the prospects for continuing, significant decreases in ONAP staffing and travel resources.

Tulalip Tribes Housing Authority

In MARYSVILLE, WA, an OIG audit found that the Tulalip Tribes Housing Authority misused and abused the Mutual Help Program because its program design favored over-income families to the detriment of those with low incomes. The Authority also did not give families credit for land contributions or require a minimum homebuyer contribution.

The Authority used program funds to build custom homes with amenities not previously provided by the program. The largest and most expensive home was built for the Authority's executive director and her husband, the Authority's director of development. The provisions of amenities to over-income families with preapproved FHA insured loans reduced program funds intended to benefit low-income families. The Authority's plan anticipated recovering the funds spent on amenities when the over-income families purchased their homes. However, there was no purchase requirement and under the program, sales proceeds would not be returned to the program.

Authority officials created conflicts of interest by allowing officials, employees, and their relatives to participate in the program. Although the statute and regulations do not prohibit their participation, it violated the Authority's own policy. Employees and parties related to employees or board members received 7 of the 18 homes provided. Three of these homes were for immediate family members of members who make decisions and influence the program's policies.

Finally, the Authority did not credit any of the families for the land donated by the Tribe or require families to make the minimum \$1,500 homebuyer contribution to the program. In addition, the Authority collected a \$500 cash deposit that was not part of the Mutual Help Program. As a result, the families did not meet the minimum requirements. The Authority said this was an accounting error on their part and that families should have received a credit for a \$1,500 land contribution and \$500 deposit.

Some of the recommendations made by the audit report include limiting program participation to low- and very low-income families unless the need to assist over-income families is justified and approved by HUD; establishing a moderate design standard to be used in Mutual Help homes; and maintaining a waiting list of eligible applicants. This Authority's activities were included *The Seattle Times* article and in IG testimony before the Congress. (Report No. 97-SE-207-1001)

Financial Closeout of Developments

Excessive delays have occurred in closure and financial settlement of completed development projects by the HUD Southwest Office of Native American Programs (SWONAP), PHOENIX, AZ. An OIG audit found that as of March 31, 1996, there were at least 419 open projects that should have already been closed in HUD systems or in the closeout process. Because of the failure to properly close out these projects, over \$38 million of development funds had been reserved but unused for up to 22 years; HUD has not collected at least \$3 million in excess payments made to PHAs; and obligations were overstated in HUD's financial statements by at least \$94.5 million.

HUD management and staff did not consider the fiscal closeout of projects to be a high priority. Contributing to the problem was HUD's transfer of information on existing projects from accounting system to accounting system without proper verification, failure to reconcile accounting and program systems, and the accounting offices' inability to remove projects with approved cost certificates from the systems. It has now reached the point where SWONAP lacks the resources to verify and reconcile the systems, or to properly close out many of these projects. The Office of Public and Indian



Housing generally agreed with our findings and the need to allocate adequate resources to resolve the problems, but expressed concern over the availability of staff resources needed to correct the problems. To facilitate closeouts, they did issue Notice PIH 96-91, "Closeout of Indian Housing Development Projects," on December 10, 1996. (Report No. 97-SF-107-0001)

Unspent Grant Funds

Of the \$344 million of acquisition grant funds approved for Fiscal Years 1991 through 1995, \$95 million remain unspent. Approximately 58 percent of these unspent funds represent grant funds which were approved 2 to 5 years ago to purchase housing units at 112 PHAs in 34 states. An audit in WASHINGTON, DC, determined that funds remain unspent for several reasons. Local opposition to the development of new public housing is a major cause. In addition, some PHAs have experienced difficulty finding units requiring little or no repair. We also found indications that HUD monitoring of PHAs to ensure timely use of grant funds has not been effective.

The audit recommended that HUD's Public Housing staff review grants with remaining balances to determine the best use of funds, such as reformulation to another development method, use under modernization or for operating expenses, continued reservation under the acquisition method, or, as a last resort, recapture. The Acting Assistant Secretary for Public and Indian Housing generally agreed with our finding and recommendations. (Report No. 97-BO-101-0002)

Memphis Housing Authority

Both the exterior and interior of units of the MEMPHIS, TN Housing Authority (MHA) suffer from years of neglect. A comparison of MHA units to three other developments of similar age, size, location and modernization funding in the Southeast found that projects at all three developments had been better maintained/modernized. At the request of the former Secretary, we audited MHA and found that its problems are compounded by a high percentage of old and obsolete units. Seventy-one percent of the 7,090 units were built between 1938 and 1960, and are functionally obsolete. Because the deterioration of the MHA's housing stock is extreme and shows little sign of being reversed, we recommended forceful actions to improve the living conditions for residents. Recommendations included declaring the MHA in substantial default; obtaining an independent assessment of need in maintenance and modernization programs; and making changes to the MHA's maintenance and modernization operational areas.

Finally, MHA had not efficiently used funds HUD provided under the Section 8 Voucher Program. MHA for years underutilized available funds, resulting in excessive build up of reserves and depriving many low-income families of housing assistance. Recent restrictions on reserve usage by HUD because of Congressional cost cutting measures now preclude MHA from using its reserves to assist additional families. However, MHA can still provide housing from its annual contract authority to 50 percent more families than the 650 its program is serving.

MHA is currently considered a "standard" performing housing authority, and is off the HUD list of "troubled" PHAs, within the context of HUD's Public Housing Management Assessment Program (PHMAP). Since MHA is not meeting its primary goal of providing decent, safe and sanitary housing, and has not for several years, we believe some may find it difficult to understand that a "standard" performing housing authority, as that term is generally defined, should have the problems MHA is experiencing in its housing. We expressed concern in a draft finding about PHMAP misrepresenting the condition of MHA's housing, arguing that HUD needed to revise PHMAP to place more emphasis on the condition of housing authority housing stock. The headquarters Office of Public and Indian Housing advised that it would change the PHMAP rule to clarify that it only reflects management performance in specific program areas, and should not be viewed as reflecting overall operational performance. Based on this promise to better define the role of PHMAP, we dropped the draft finding from the report. Subsequently, HUD's 1997 Public Housing Reform bill contains a provision which authorizes the



Secretary to designate a public housing authority as “troubled” if it is not providing basic acceptable housing. (Report No. 97-AT-201-1001)

Philadelphia Housing Authority Progress Report

An OIG audit found that the PHILADELPHIA, PA Housing Authority has not completed all parts of the 24-month Operation Improvement Plan and needs to accelerate improvements. We performed the audit to determine the progress made by the Authority in improving their operations and correcting deficiencies cited in our May 1992 audit report, as well as their progress in meeting the plan initiated in December 1993 as part of a partnership agreement with HUD. The 24-month plan was a road map for change and prioritized modernization activity, resident services and improvement in day-to-day operations following the Authority's default and breach of the Annual Contributions Contract.

Although plan implementation is not completed, some significant steps were taken during the last 2 years. These included implementation of a new lease; rehabilitation, repair and rent-up of over 2,400 units; training provided to employees; a program to increase rent collections; and hiring of a consultant to develop and help implement standard operating procedures. HUD staff strongly believe that the Authority's overall success will be directly tied to the urgently needed modernization of its units. Since 1993 HUD has provided over \$1 billion to the Authority, with approximately \$470 million related to modernization and replacement of units. (Report No. 97-PH-201-1004)

San Francisco Recovery Team Update

In March 1996, we began a review of HUD's recovery efforts at the San Francisco Housing Authority. We reported our evaluation of their efforts in interim reports covering, respectively: (1) security and the Section 8 Program; (2) reorganization, resident participation, and community involvement; and (3) housing operations (including maintenance and management), redevelopment, and modernization. During the initial phase of the recovery effort, the HUD team assessed the Authority's operations and developed an ambitious 6-month plan that addressed the well-known problems, including lack of competent leadership, physical decay of the housing, poor performance in collecting rent, and high level of crime at the housing developments.

In our December 27, 1996 memorandum, we concluded that much of the recovery plan has yet to be implemented, including critical items such as hiring of key personnel and adopting new operating procedures. We noted at the same time that the Authority had taken a number of positive steps, such as beginning a preventive maintenance program, completing resident relocation from two housing developments so that demolition and new construction can begin, stopping abusive practices in employment and resident waiting lists, and enforcing leases more effectively.

The recovery effort is at a critical stage. Important policy decisions need to be made that will significantly affect recovery efforts. Our report to the Secretary emphasized the need for HUD to scrutinize changes to the recovery plan proposed by the acting executive director and to assure that they will adequately address the problems identified by the recovery team.

Low-Income Housing Program

The PONTIAC, MI Housing Commission's occupancy operation was not effectively managed. Excessive vacancies have existed since 1982 in the elderly developments and since 1986 in the family developments. Our audit found that the Commission spent \$5.7 million to modernize the elderly units, but has no assurance that the units will be marketable. Additionally, the Commission paid excessive amounts to rehabilitate the units and accepted incomplete and substandard work from contractors. The vacant units should have cost an average of \$8,000 to rehabilitate, but the Commission spent



an average of almost \$20,000 per unit.

The Commission's inability to effectively address its vacancy problem has resulted in an inefficient use of resources. After all modernization work is completed, the Commission will need to fill 315 vacancies in its elderly and family developments. There are currently 54 people on its waiting lists. Assuming all applicants are acceptable candidates, the combined vacancy rate will reach 33 percent.

The audit recommended a number of actions to improve the Commission's procurement, contracting, modernization and rehabilitation programs. In addition, we recommended that the Director of Public Housing take administrative sanctions against the Commission's executive director and the contractors who did the substandard work. (Report No. 97-CH-202-1006)

Comprehensive Grant Program

Following a citizen complaint, the OIG reviewed the HAMTRAMCK, MI Housing Commission's plan to use Comprehensive Grant Program funds to construct a multi-purpose facility that included a police station for the city. We concluded that \$488,250 of the \$1.8 million in grant funds planned to be used to construct the police station would not be an eligible use. We also concluded that HUD lacks reasonable assurance that the rest of the multi-purpose facility will adequately benefit the Commission's low-income residents. As planned, the facility will be a quarter mile from the elderly development and two miles from the family development. According to the executive director, the Commission will provide bus or shuttle service to the facility for its residents. However, the director did not have specific plans that addressed how this would be accomplished. Also, the Commission did not have commitments from social service agencies or other organizations to provide services and activities needed for residents.

We recommended that the Commission provide evidence that the activity center will substantially and primarily benefit low-income residents before the plan is approved. Additionally, commitments from supportive service agencies and other organizations providing services and activities should be obtained. We also recommended that the Michigan State Office's Director of Public Housing not approve the use of grant funds to pay any portion of the cost of the police station. (Report No. 97-CH-184-1801)

Tenant Opportunity Program

An OIG audit of Tenant Opportunity Program (TOP) grantees at ATLANTA, GA Housing Authority (AHA) developments disclosed that the grantees lacked control over grant funds, had inadequate books and records, and lacked a basic knowledge of the program. The 31 grantees had spent 22 percent of the over \$3 million in grant funds awarded. The lack of control over grant funds led to \$72,700 in unsupported costs and \$9,600 in ineligible costs. We attributed these conditions to the failure of the Technical Assistance Organization concept in that it did not fulfill the role of services coordinator and technical advisor.

Additionally, the audit discovered that most senior high-rise development residents were not interested in resident management. The 14 TOP grants to senior citizen communities in AHA developments totaled \$1.4 million. Four of the senior groups we reviewed were using program funds for recreational activities. According to the HUD Office of General Counsel, activities such as purchasing exercise equipment, ceramics, and story-telling are not eligible TOP training initiatives and TOP funding cannot be used for these activities.

The audit recommended specific actions to improve grantee performance including recovery and/or support of ineligible and unsupported costs, and development of a community specific work plan that includes budgets, time frames, and performance standards. Additionally, the \$1.4 million awarded to the 14 senior developments should be reevaluated to determine if the objectives and legislative mandate of TOP are being met. (Report No. 97-AT-101-0002)



Housing Authority Reviews

An OIG audit found that expenditure of almost \$238,000 by the WASHINGTON COUNTY, PA Housing Authority could not be supported because the Authority did not first determine the “baseline” or normal level of police services provided to its housing developments. To determine what activities the Drug Elimination Program is funding, the baseline must first be quantified so that the increase in activity arising from program funding may be measured. Additionally, a review of the Section 8 Program revealed that in some instances, the Authority did not verify income, calculate total tenant payments, verify federal preferences or complete inspection reports. Also, the Authority's administration of the Public Housing Program needs improvement. The Authority did not verify income and dependent status or house tenants in units of appropriate size. The report recommended that the Authority justify or repay HUD the unsupported payments for police patrols and ensure their staff's compliance in administering HUD programs. (Report No. 97-PH-202-1003)

An audit disclosed that the Luzerne County Housing Authority (LCHA) in KINGSTON, PA, violated HUD's Drug Elimination Program regulations by making payments to nine local law enforcement agencies without establishing the required baseline, resulting in unsupported costs of over \$214,000. Further, the absence of management oversight led to internal control deficiencies resulting in almost \$82,000 in improper disbursements. The LCHA also used almost \$20,000 in operating funds for donations, travel and miscellaneous costs, contrary to HUD policies. Finally, LCHA's inattention to detail and unfamiliarity with Public Housing Management Assessment Program requirements led to an inflated certification score and receipt of additional benefits based on that score. We recommended that LCHA reimburse HUD for ineligible costs, justify the unsupported costs, and implement specific actions to correct the operational and administrative deficiencies cited. (Report No. 97-PH-202-1006)

An audit found that the COLUMBUS, OH Metropolitan Housing Authority's rehabilitation of Lincoln Park Apartments was substandard. The rehabilitation work was not completed in a workmanlike manner nor was it in compliance with the contract work specifications. The Multifamily Housing Division of HUD's Ohio State Office estimated the cost of the defective work at almost \$415,000. Defective work included loose plumbing fixtures; incorrectly installed doors and missing hardware; missing exterior concrete expansion and control joints; defective tiles and loose wall base moldings. Neither the Authority nor the general contractor provided the necessary inspections needed to ensure quality rehabilitation work. Furthermore, tenants were living in units that were unsanitary and hazardous. In addition to the detailed recommendations made, the report also recommended that the Ohio State Office's Public Housing Division inspect the interiors of units not included in the audit sample to determine whether the rehabilitation work was acceptable. (Report No. 97-CH-204-1003)

An audit of the Franklin County Housing Authority, WEST FRANKFORT, IL, found that the Authority lacked adequate controls over cash receipts and its parts and supplies inventory. Specifically, the Authority allowed employees and others to cash over \$40,000 in personal checks against cash rent collections, reimbursed the petty cash fund \$14,650 from cash rent receipts, did not follow up on cash shortages and overages in rent deposits, and did not adequately segregate cash receipt duties. The Authority also failed to properly safeguard its inventory of parts and supplies, and lacked adequate controls over tenant accounts receivable. In addition, the Authority did not properly administer its Drug Elimination Program grant. Grant costs of over \$46,000 were not adequately supported or did not relate to the administration of the program. The Authority's former executive director did not ensure that contractors used for the program properly supported their costs or that administrative funds drawn down were used for the program grant. As a result, HUD cannot be assured that all costs associated with the grant were necessary. We made specific recommendations to address the inadequate controls over rent receipts and inventory. We also recommended that the Authority provide justification and documentation supporting the contracts and services paid for with Drug Elimination Program grant funds or repay HUD for any unsupported amount. (Report No. 97-CH-202-1001)



Single Family Housing Programs

During this reporting period, we reported on certain aspects of the Section 203(k) Single Family Rehabilitation Home Mortgage Program which is HUD's primary program for the rehabilitation and repair of single family properties. The program enables the borrower to finance both the acquisition and rehabilitation of a property with just one loan, at a long-term fixed or adjustable rate. We also reviewed the HUD Connecticut State Office's processing of single family defaulted FHA insured mortgages.

Section 203(k) Program

A nationwide audit of the program coordinated by our Southeast/Caribbean District found that the program is highly vulnerable to waste, fraud and abuse by investors and nonprofit borrowers. A multi-field office review of 442 loans made by 8 lenders to 74 investors and nonprofit borrowers found risky property deals, land sale and refinance schemes, overstated property appraisals, and phony or excessive fees. The program's design does not adequately safeguard HUD interests. Borrowers have carried out fraudulent or unnecessary transactions to generate money for themselves or other identity-of-interest parties. They have not made required down payments, and have obtained loans on properties which did not need significant repairs and should not have been in the program.

Mortgage lenders have contributed to much of the abuse. One lender, for example, repeatedly circumvented HUD loan origination requirements to assist otherwise unqualified borrowers in obtaining loans and then charged ineligible and unsupported fees. We computed excessive profits and ineligible fees totaling about \$4.5 million on 344 loans, a cost ultimately passed on to a homeowner or to HUD and the taxpayer in the event of a default. We recommended that HUD disqualify investors just as was done in the Section 203(b) Loan Program and take other precautions to prevent the program abuses.

The audit also found that HUD endorsed loans exceeding the authorized loan limits. This problem occurred when HUD implemented the escrow commitment procedure for computing loans, increasing the amount of the HUD insured loan based on speculative future property value. HUD learned of its error in August 1996 but did not stop lenders from using the procedure.

In response to our report, the Assistant Secretary for Housing notified mortgagees that HUD had placed a moratorium on investor loans. The Office of Single Family Housing studied ways to improve the 203(k) Program and discussed the results of their work with the OIG. We continue to believe that investors should not participate in the program.

Regarding the issue of the escrow commitment procedure, the OIG obtained a copy of a January 30, 1997 legal opinion from the Associate General Counsel for Insured Housing. The opinion states that "an escrow commitment procedure could be developed that is consistent with the National Housing Act and regulations but that the manner in which the maximum mortgage amount is now calculated...can lead to a mortgage amount which exceeds the maximum mortgage amount permitted by Section 203(k) of the NHA." The opinion further states that "we do not think there is a legal basis for additional Section 203(k) mortgage insurance being issued without confirmation that the current mortgage balance is at, or below, an amount that reflects the as-is value rather than the after-improved value of a property." With such an unqualified opinion, the OIG recommended HUD stop endorsing Section 203(k) loans that exceed the statutory limit.

In response to this audit report, the Assistant Secretary for Housing issued Mortgagee Letter 97-05, dated March 3, 1997, which advised mortgagees that they may no longer use the escrow commitment procedure for computing Section 203(k) single family loans. (Report No. 97-AT-121-0001)



The OIG reviewed the HUD WASHINGTON STATE Office's plan to allow financing the cost of computers in 203(k) loans. We believe HUD should stop the Office's plan before any loans including computer costs are approved because computer equipment rapidly depreciates and unnecessarily increases the loan risk. In addition, title to computer equipment is not normally conveyed to the purchaser of the real property, and the inclusion of the cost of the equipment in the loan is inconsistent with current program requirements because it improperly allows costs in the loan for a luxury item which is not needed for full housing rehabilitation. The program also improperly favors one small group of potential borrowers and one lender because it is limited to loans to members of a particular education association made by one bank. (Report No. 97-AT-121-0802)



Processing of Defaulted Mortgages

Delays in processing foreclosure actions could cause HUD to sustain more than \$2 million in losses. The owner of CONNECTICUT's New Hill Homes has been in default for 48 HUD insured single family mortgages for more than 3 years. During this time, he has collected more than \$2.4 million in rent subsidies. An audit found that both the mortgagee and the HUD Connecticut State Office (CSO) contributed to the delays in the foreclosure process. The mortgagee attempted to obtain waivers of regulations and the CSO did not respond promptly to the mortgagee's requests. In addition, the mortgagor delayed foreclosure action by trying to refinance the mortgages.

Multifamily Housing Programs

The audit recommended that the foreclosures be finalized without any further extensions. Once the properties are transferred to HUD, HUD should request the Office of General Counsel, in conjunction with the Department of Justice, to pursue deficiency judgments against the mortgagor. The CSO Director of Single Family Housing agreed with our recommendations and stated that, while avoidable delays occurred early in the foreclosure process, recent actions have been timely. The Director also stated that there was much opposition to HUD's decision to foreclose rather than accept blanket assignment. (Report No. 97-BO-129-0003)

In addition to multifamily housing projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages. It also subsidizes rents for eligible low-income households living in multifamily housing, provides assistance to expand the supply of housing with supportive services for the elderly, finances the construction or rehabilitation of rental housing and manufactured home parks, provides mortgage insurance to finance cooperative housing projects, provides federal grants to eligible housing projects for the handicapped, and provides mortgage insurance to finance or rehabilitate nursing, intermediate care, or board and care facilities. During this reporting period, we reviewed the recovery of excess insurance proceeds; possible risk to FHA in insuring a mortgage; multifamily enforcement actions; HUD's efforts in recovering overpayments made to project owners; the appropriateness of the sale of an apartment complex; and mismanagement of a hospital.

Excess Insurance Proceeds

The OIG conducted a multi-district review of defaulted HUD insured mortgages financed with tax-exempt bonds. Mortgagors often use tax-exempt bonds to finance multifamily housing developments with HUD insured mortgages. When a mortgagor defaults, the mortgagee assigns the mortgage to HUD and HUD pays the mortgagee's insurance claim. On tax-exempt, bond-financed projects, the mortgagee remits funds to a bond trustee who pays off the bondholders. Frequently, HUD pays a mortgagee's insurance claim for more than is needed to pay off the outstanding bonds.

The review found that as of July 15, 1996, HUD had paid out \$17.1 million in excess insurance proceeds for 82 multifamily insured housing developments. HUD has been successful in recovering \$2.7 million of this amount. The remaining \$14.4 million in excess insurance proceeds were either disbursed to owners, issuers, the Government National Mortgage Association, and third parties, or held by trustees. For amounts held by trustees, two districts initiated recovery steps that included persuading five trustees to file interpleader actions (actions by another party filed in order to limit liability) on \$1.5 million involving 14 projects. Audit work on approximately 130 additional multifamily projects is



continuing. The audit recommended that the Office of Housing, in conjunction with the Office of General Counsel, publish regulations dealing with prospective accumulations of excess insurance proceeds. The audit also recommended that Housing take action to identify excess insurance proceeds and ensure the proceeds either benefit housing developments and their residents or offset HUD's mortgage insurance losses. Housing believes the disposition of the excess funds is already dictated by the Tax Reform Act of 1986, and has requested a legal opinion. (Report No. 97-KC-112-0801)

FHA Insurance Risk

The developer of a 1,663-unit apartment complex in NEW YORK, NY, requested that FHA provide \$356 million of mortgage insurance. The proceeds would be used to develop residential units, a recreational park and a pier. Out of the 1,663 units, 333 (20 percent) would be available for low- and moderate-income people. Because of local community and Congressional interest, we reviewed the application and corresponding documentation developed by the HUD New York Field Office. We concluded that FHA should not bear the risk of insuring the mortgage for three reasons. First, so few units will be used for low- and moderate-income housing. In essence, for each \$1 million of insuring authority devoted to this development, one unit of low- and moderate-income housing will be produced. Second, the park and pier will be given to the City of New York after mortgage endorsement. Consequently, in the event of default, there are potential significant losses to the FHA insurance fund. Third, we question whether insurance of the park and pier would be consistent with Congressional intent.

In addition to this particular apartment complex, the issues identified in this review also pertain to HUD's processing of all requests for multifamily mortgage insurance. Therefore, we recommended that HUD not bear the risk of insuring the proposed mortgage for the complex; immediately place a cap on the site costs not attributable to dwelling use; and provide better guidance to field offices in identifying dwelling costs not attributable to dwelling use. (Report No. 97-NY-112-0802)

Enforcement Actions

The Connecticut State Office's (CSO) enforcement actions with respect to a multifamily development in NEW HAVEN, CT, were not timely or effective. The owner defaulted on the mortgage in 1995 and is still in control of the project. At the time of default, the owner was already under a 3-year HUD imposed debarment. Following default, the CSO continuously advised the owner of potential enforcement actions HUD could take, but did not follow up on its warnings. The owner continued to withdraw project funds even after default.

This owner has years of experience in dealing with HUD during which he usually found that HUD would grant concessions to resolve problems rather than take aggressive enforcement actions or foreclose on the mortgage. Armed with this knowledge, the owner continuously made promises which delayed HUD's implementation of enforcement actions. The OIG audit recommended that HUD analyze the servicing actions on this project and use it as a case study to provide guidance for asset managers, and develop specific procedures to assist asset managers in dealing with uncooperative owners.

The Assistant Secretary for Housing agreed that the lessons learned from this case can be used to strengthen the Department's enforcement strategy and capacity of HUD staff to carry out enforcement actions. The Assistant Secretary also agreed that specific procedures need to be developed to assist asset managers. However, he advised that asset management/enforcement had already been significantly strengthened through the Special Workout Assistance Team, financial and technical assistance contracts, the upcoming Multifamily Asset Management Technical Assistance contract, and the database warehouse. (Report No. 97-BO-111-0803)

Recovery of Overpayments



The OIG audited the HUD SEATTLE, WA Office of Housing's recovery of past overpayments made to Section 8 project owners. These overpayments occurred due to litigation commonly referred to as "Alpine Ridge." In 1993, the Supreme Court overturned lower court decisions on Alpine Ridge, which resulted in the setting aside of court orders that had required HUD to pay higher rents. As a result, the lower courts authorized HUD to collect these past overpayments by offsetting future Section 8 payments to the owners.

Our recalculations of the total amount due and Housing's calculations differed for 17 of 20 projects. We discussed the significant differences for 15 of these 17 projects with Housing staff and agreed on changes. The differences, both positive and negative, total about \$370,000. Also, due to an appeal from an owner in 1993, Housing applied a local annual adjustment factor for a 2-year period. This application did not agree with previous HUD guidance, which specified a 12-month period. As a result, about 61 project owners received the benefit of a twice-applied high local annual adjustment factor and received up to \$3.7 million in excessive housing assistance payments. In addition, the Seattle Office of Housing has not attempted to collect overpayments on a project that was sold during the Alpine Ridge litigation, even though it has a statutory obligation to do so. The audit recommended that HUD provide evidence that the adjustments in the calculations have been completed and communicated to owners, and collect the overpaid housing assistance payments from the owners. (Report No. 97-SE-111-0001)

Priority Purchaser Status

At the request of the Deputy Assistant Secretary for Multifamily Housing, the OIG reviewed the priority purchaser status regarding the preservation sale of a multifamily development in HOUSTON, TX. The resident council alleged that a relationship existed between the seller of the property and the proposed priority purchaser and that the sale did not have resident support. The review disclosed no evidence to suggest that the seller and the nonprofit purchaser are a related party as defined in HUD's Preservation Letter Number 8. This Letter, issued in July 1996, clarifies HUD's position on what is a related party and the related party rule. The related party rule was created to assure that legitimate, independent nonprofits would have special purchase rights while preventing for-profit owners from setting up sham nonprofits for the purpose of buying back their own projects in prearranged sales transactions.

However, the review noted that the seller and consultants orchestrated the sale of the development to a nonprofit group, created by them, that has had little to no involvement with the plan of action process and is not supported by the residents. The report disclosed concern that the best interests of the property, the residents, and the community are not being met. The review also disclosed that HUD's Houston Area Office may have given final approval of the sale without allowing the full amount of time specified for residents to submit comments. In addition, the Houston Office may not have adequately assessed whether this sale was made to a nonprofit with the capacity to run the development in the best interests of its residents. The audit recommended that HUD assess whether the development's nonprofit represents the kind of priority purchaser that the Congress and HUD intended or whether it represents a sham organization, determine whether it has the capacity to run the project in the best interests of the residents, and determine whether final approval can be legally retracted. (Report No. 97-BO-114-0801)

Improperly Managed Hospital

At the request of the Office of Housing's Hospital Mortgage Insurance staff, the OIG audited a hospital in NEWPORT NEWS, VA, and found that the hospital's former board of trustees did not properly oversee hospital management and maintain adequate controls over hospital operations. The mortgagor and agent paid ineligible and unsupported expenses totaling \$768,874 and \$682,174, respectively, from hospital funds. Contrary to the Regulatory Agreement, the former



Community Planning and Development Programs

board of trustees received \$542,880 in compensation from the hospital during their tenure. Board members were either unaware of restrictions on operating expenses or considered their compensation acceptable since the practice was longstanding. In addition, consultants were paid without board approval, the hospital's management agent made improper loans, and \$470,000 in questionable management fees were paid to the agent. As a result, the hospital was deprived of funds needed to meet financial obligations. The audit recommended that the current board take appropriate action to recover the ineligible costs and provide justification for the unsupported costs. (Report No. 97-PH-212-1002)

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeownership opportunities, homeless shelters, neighborhood restoration, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, OIG audits focused on the Community Development Block Grant (CDBG) and Homeless Programs.

CDBG Program

The CDBG Program provides annual grants on a formula basis to entitled communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. In addition, the program provides aid to promote sound community development primarily for the benefit of low- and moderate-income people.

The City of GULFPORT, MS (grantee) was unsuccessful in its attempts to administer the Housing Rehabilitation Program, and was at least 2 years behind in spending over \$2 million in federal grant funds. An OIG audit, conducted at the request of the CPD Division Director in the HUD Mississippi State Office, found that the grantee did not establish and maintain basic operating systems to assure its major activities were performed according to regulations. Of 11 houses we inspected to determine if they met local, national and HUD building standards, none passed inspection. We identified payments for work that was not completed or completed in an unacceptable manner, and building standards violations that the grantee failed to identify during its initial and final inspections. These deficiencies occurred because the grantee's inspectors were not specifically trained to perform inspections, and were pressured to perform cursory inspections in order to meet production goals. The unacceptable work continued because the grantee did not take action against contractors who performed poorly. In addition, the grantee did not maintain rehabilitation loan collection procedures for its staff, resulting in over \$104,000 in delinquent balances at October 4, 1996. Following the audit, the grantee began to take some corrective actions. However, the grantee should not begin any new housing rehabilitation until it has corrected identified deficiencies and has procedures in place to assure building standards are met. (Report No. 97-AT-241-1002)

Montgomery County, a grantee in FONDA, NY, should be required to repay \$415,000 in ineligible costs and either repay or document \$1.3 million in unsupported costs. The grantee has not established the administrative practices necessary to either ensure that costs paid from grant funds are allowable and reasonable, or to properly administer its Small Cities CDBG Program. An audit conducted by the OIG, New York State Comptroller's Office, and Montgomery County Sheriff's Department disclosed that the grantee used CDBG funds and program income to provide loans to persons or entities with possible conflicts of interest. The grantee has not monitored its subrecipient, and, together with the subrecipient, made imprudent loan decisions, and obligated and disbursed funds without adequate support. The audit



recommended a number of actions to strengthen the grantee's program administration. In addition, the grantee should be advised that, unless corrective actions are implemented in a timely manner, HUD may take administrative actions against the grantee. (Report No. 97-NY-250-1002)

The City of HOUSTON, TX, used CDBG funds to rehabilitate two multifamily properties, acquired from the Resolution Trust Corporation, according to HUD eligibility requirements. However, an OIG audit disclosed that in awarding a consultant contract for property and construction management services, the City committed a technical violation, as the award resulted in a sole source contract. The City then allowed the consultant to handle most aspects of the rehabilitation construction without proper monitoring. As a result, the City did not detect the consultant's violation of key provisions of the contract, including the consultant's award of construction contracts without free and open competition. The consultant hired three subcontractors to perform 91 percent of the \$1.1 million in rehabilitation work. The three subcontractors were related and were involved in questionable transactions. Over \$353,700 of their rehabilitation work was questioned or not adequately supported. The audit made recommendations to improve internal controls over consultant contracts and recover ineligible costs. (Report No. 97-FW-249-1001)

Although the City of CHARLOTTESVILLE, VA, has generally been effective in administering the CDBG Program, an OIG audit disclosed that the City has not followed regulations and guidelines in administering its Economic Development Loan Program. The City ignored its own written guidelines and failed to document that appropriate analysis was done for three of four loans. As a result, the City could not show that the loans did not unduly enrich the borrowers and that the assistance was appropriate to carry out the projects. In addition, the City failed to document that national program objectives were met, financial commitments were obtained, and loan expenditures were supported. As a result, the City provided ineligible loans totaling \$54,821 to three borrowers. The report recommended that the program be repaid for the ineligible amount plus interest earned. (Report No. 97-PH-241-1001)

The OIG conducted a review of CDBG funds received by the Southern Ute Indian Tribe in IGNACIO, CO, and found a number of items warranting further attention by the Office of Native American Programs. The Tribe failed to notify HUD about revised cost summaries, implementation schedules and project descriptions for one renovation project funded with nearly \$400,000 in CDBG grant monies. The Tribe improperly classified the application for a multifamily rental housing project, which could impact on the ranking of the application and possibly the selection of grant recipients. In addition, the Tribe has encountered delays in completing its projects. During our review, it was apparent that the Tribe was receiving more grants than it had the capacity to manage and execute in a timely manner. We believe the capacity of the Tribe to manage grant projects should be taken into consideration in future applications until the Tribe can demonstrate the ability to manage additional projects. (Report No. 97-DE-241-1801)

Homeless Program

HUD makes grants for programs that meet the immediate and long-term needs of the homeless. These programs must include support services that enable homeless families to break the cycle of homelessness and live independently.

Of the \$630,241 received by the Community for Creative Non-Violence (CCNV) under a grant agreement, only about \$223,550 was spent on a computerized case management system as intended. The remaining \$406,781 was spent on items that were either not allowable or could not be determined to be allowable due to a lack of supporting documentation. An OIG review, conducted as the result of a hotline complaint, disclosed that the objectives of the grant CCNV received from the Community Partnership for the Prevention of Homelessness were not met. The OIG requested supporting documentation from the vice president of CCNV numerous times, but it was not provided. Therefore, the \$406,781 in unsupported expenditures were disallowed. The report recommended that the Interagency Council for the Prevention of Homelessness terminate the current grant agreement, suspend CCNV and its vice president from receiving additional HUD funding and



initiate debarment actions, and determine whether the case management services at CCNV should be continued or terminated. The Acting Director for the Interagency Council agreed with our recommendations. (Report No. 97-AO-251-1801)

Investigations

In addition to its Operation Safe Home responsibilities, the Office of Investigation pursues allegations of irregularities or abuses in HUD's programs and activities, as well as violations of law or misconduct on the part of HUD participants and beneficiaries. During this reporting period, total investigative efforts (including Operation Safe Home), resulted in 1,546 persons arrested for drugs/violent crime, 357 persons indicted, 166 persons convicted, and cash and other recoveries totaling \$7.5 million.

Apart from Operation Safe Home, some of the more significant investigation results during this period include the following:

- Two real estate brokers were sentenced to 6 months confinement and 2 years probation in a \$1 million mortgage fraud scheme in which they caused the origination of fraudulent mortgages to strawbuyers and others by providing false information to HUD.
- An attorney pled guilty to conspiring with others in fraudulently originating mortgages valued in excess of \$200,000 as part of a \$7 million conventional and HUD insured mortgage fraud scheme.
- An individual claiming to be an investor, who obtained over \$900,000 in fraudulent Section 203(k) mortgages, all of which are in default, pled guilty to conspiring to defraud the government.
- The president and owner of a development company was sentenced to 18 months in prison and ordered to pay \$350,000 in restitution for his role in a scheme to obtain \$1.6 million from HUD under the Flexible Subsidy Program.
- Two directors of a not-for-profit HUD grantee were charged with diverting more than \$660,000 in grant funds and using them to pay for personal expenses.
- Two individuals were ordered to pay over \$21,000 in restitution to a housing authority after being convicted of defrauding the Section 8 Program by making false statements about their income.



Single Family Housing Programs

OIG investigations continued to uncover instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of single family loans, including the 203(k) Program. In addition, we found instances of fraud and bribery and cases in which speculators and investors engaged in strawbuying and equity skimming schemes. A strawbuyer is paid to act as the buyer of a property and then transfers the property to a speculator who eventually defaults on the mortgage. Equity skimming is the practice of taking rent receipts but not making the mortgage payments.

Loan Origination

A SEATTLE, WA real estate speculator was sentenced to 4 months incarceration for violating his probation. The speculator was previously convicted for qualifying ineligible individuals for single family mortgages by submitting false statements to HUD. He was sentenced to 5 years in prison and 5 years probation, and ordered to pay \$282,185 in restitution to HUD. While the speculator was on probation, the U.S. Probation Office found that, in violation of his probation, he was attempting to speculate in real estate. The U.S. Attorney's Office is attempting to use this action to recover \$277,000 still owed to HUD. This was an OIG investigation.

Following a joint FBI/OIG Title I investigation in LUBBOCK, TX, the last of 28 defendants was sentenced in a scheme to fraudulently qualify mobile home buyers. The investigation eventually led to a major bank fraud involving firms that sold the mobile homes. The 28 were sentenced on 70 charges including conspiracy and bank fraud, were ordered to pay \$3.2 million in restitution to two banks, \$16,800 in fines, and \$1,950 in special assessments, and received 1,106 months in prison and 1,480 months of probation.

Following a joint FBI/OIG investigation into FHA mortgage loan origination fraud, a former loan officer in ALEXANDRIA, VA, pled guilty to one count of making false statements and was sentenced to 3 years probation. The investigation disclosed that the loan officer originated FHA insured mortgage loans by using fraudulent employment data, gift letters, income tax returns, and financial statements. The loan officer, who has signed a plea agreement, will cooperate in this continuing investigation.

Two defendants, who earlier pled guilty to submitting false bank, employment, and rental history statements in an attempt to obtain an \$86,000 FHA insured loan, were sentenced to a combined total of 30 months incarceration, 36 months of supervised release, 24 months probation and fined \$11,750. This OIG investigation was based on information received from two HUD MEMPHIS, TN Area Office employees who noted inconsistencies in the FHA case file prior to loan endorsement.

The president of TLC Mortgage Specialists, Inc., SOUTH EUCLID, OH, was convicted on all counts of an 11-count indictment charging him with submitting false statements to HUD. The president submitted fictitious information to HUD on loan applications for FHA insured mortgages. This was a joint investigation by the FBI and OIG.

Two LONG ISLAND, NY real estate brokers were sentenced to 6 months confinement and 2 years probation in a \$1 million mortgage fraud scheme involving 10 defendants. The brokers, along with others, caused the origination of fraudulent mortgages to strawbuyers and others by providing false information to HUD. Losses to the Department exceed \$600,000. To date, seven defendants have been sentenced to a total of 3 years in prison, 17 years probation, and fines and restitution totaling \$700,000. This investigation, conducted jointly with the Postal Inspection Service, was predicated on



the receipt of fraud referrals from HUD's Quality Assurance Division.

In a separate case, a LONG ISLAND, NY attorney pled guilty to charges that he conspired with others in the fraudulent origination of mortgages valued in excess of \$200,000, and with failing to report \$210,000 in income to the IRS. The defendant, along with 14 previously convicted individuals, was part of a \$7 million conventional and HUD insured mortgage fraud scheme. The actions of these individuals ultimately led to the failure of a bank and significant losses to HUD and the Resolution Trust Corporation. This OIG initiated investigation was conducted jointly with the Postal Inspection Service, IRS, and the FBI.

Two DALLAS, TX single family speculators pled guilty to mail fraud and aiding and abetting. A joint investigation by the FBI and OIG disclosed that the speculators obtained identification documents using false names, applied for an FHA insured mortgage using false documents, purchased a residence, defaulted on the loan, and declared bankruptcy in order to discharge the debt.

In LONG ISLAND, NY, a former mortgage company owner, who served a 26-month prison sentence, has been ordered to pay \$1.4 million in restitution to HUD. The owner and other co-conspirators caused the origination of \$2.4 million in fraudulent mortgages by providing false information to HUD. The investigation, which was conducted by the OIG and the Postal Inspection Service, was predicated on the receipt of fraud referrals from HUD's Quality Assurance Division.

In VIRGINIA BEACH, VA, HUD filed a formal complaint under the Program Fraud Civil Remedies Act, asking for civil penalties totaling \$60,000 against two real estate agents and a settlement attorney who were allegedly involved in a fraudulent scheme involving two HUD owned properties. An OIG investigation disclosed that the two agents (husband and wife) falsely represented themselves as the owners of HUD properties and entered into contracts of sale with unsuspecting buyers. They then bid on and won the HUD owned homes for amounts considerably less than the contracts of sale and, with assistance from the settlement attorney, conveyed them to the buyers on the same day they purchased them. They thereby caused false certifications to be made on the HUD settlement statements about the source of the cash necessary to make settlement.

A MEMPHIS, TN federal grand jury returned a 9-count indictment charging two individuals, a mother and son, with submitting numerous false documents to a mortgage lender in an attempt to obtain an \$86,000 mortgage for the purchase of a HUD property. The false documents were uncovered by two alert employees of the HUD Memphis Office during a review of the file prior to endorsement by the lender. This was an OIG investigation.

A former employee in the HUD DENVER, CO Office was sentenced to 4 years probation and 4 months home confinement, and fined \$1,000. The sentencing follows a guilty plea to accepting a bribe. The former employee received approximately \$15,000 from a local real estate agent in return for releasing a confidential list of people in the Assignment Program. This was a joint FBI/OIG investigation.

Section 203(k)

An investigation by the FBI, DEA, IRS, OIG, and Anne Arundel County Police Department led to the arrest and indictment of a 203(k) investor and his two sons for conspiracy to distribute and possess with intent to distribute cocaine. The investor was arrested in Florida and the sons were arrested in the BALTIMORE, MD area. Most of the investor's loans are currently in default and it is believed that rehabilitation funds under the Program were siphoned off for illegal activities instead of needed repairs. The investor was subsequently found guilty of running a major cocaine operation out of the family-owned barbershop. Additionally, three drug "lieutenants" who were employees of the investor pled guilty for their involvement in the cocaine and marijuana ring and the investor's girlfriend, a settlement agent, was arrested for her role in submitting false settlement statements to HUD. The agent completed unauthorized settlements on properties being



purchased by her boyfriend with Program mortgages, then floated funds from a law firm escrow account to accomplish the settlements. Losses to the Department are still being determined.

Following a 2-year joint investigation by the FBI and the OIG in BALTIMORE, MD, a federal grand jury returned a 6-count indictment charging two investors with conspiracy, false statements, and wire fraud. The investigation disclosed that the investors purchased and helped others to purchase and rehabilitate at least 15 properties through the FHA Section 203(k) Program. Potential homebuyers were steered by the investors to the 203(k) Program in the hopes of helping their financial situation and then forced to use the investors' contracting services as a condition of loan approval. In some instances, potential homebuyers were coerced into signing powers of attorney to allow the investors to deposit their checks, which were subsequently converted by the investors to their personal use. The investors prepared and furnished false or forged repair estimates and drawdown requests in furtherance of the scheme. As a result, the homebuyers were left with over mortgaged properties where the required rehabilitation work was either never completed or was performed poorly. At least eight of the mortgages have gone into foreclosure, with losses to the Department of at least \$299,000.

A NORFOLK, VA individual claiming to be an investor, who obtained over \$900,000 in fraudulent Section 203(k) mortgages, all of which are in default, pled guilty to federal charges of conspiring to defraud the government. The individual submitted false tax returns and information concerning his employment, income, and indebtedness to lenders to purchase 12 properties from a group of speculators for whom the individual worked. After the closings, the speculators/sellers arranged for repairs to be made under the 203(k) Program and retained control of the properties' management. This was an FBI/OIG investigation.

Following an OIG investigation, an individual in ST. LOUIS, MO, who was a former HUD approved mortgage broker and a HUD Homeless Program provider, was ordered to pay \$5,000 in civil penalties to the State of Missouri, \$1,182 to the State of Missouri's Merchandising Practices Restitution Fund, and \$11,815 to five consumers in Kansas City and St. Louis who were involved in HUD's Section 203k and Homeless Programs. Potential buyers involved in both programs were led to believe that the individual would sell properties to them. Instead, the individual collected earnest deposits, rents, consultant fees, and credit report fees for the sale of properties he did not own, and failed to refund any of these monies to the potential buyers. The Missouri Attorney General's Office prosecuted this case, and HUD's Office of General Counsel participated in the civil penalty proceedings.

Equity Skimming and Strawbuying

Following an OIG investigation in DALLAS, TX, a federal jury convicted an investor of single family equity skimming. The investor, who used a variety of aliases and business names, retained rental monies from sellers and renters of assumed FHA insured properties. Sellers were encouraged to remain in the properties after executing warranty deeds in order to collect additional rental proceeds. The investigation revealed that the monies were used to support the investor's lavish lifestyle, including luxury vehicles, jewelry, and clothing. The indictment brought charges in incidents involving five separate properties; however, additional properties which the court believes may be relevant to the scheme may be included when the investor is sentenced. Losses are estimated at between \$170,000 and \$300,000, depending on whether the additional properties are considered.

A BALTIMORE, MD speculator, who previously pled guilty to submitting false statements to HUD in order to qualify for FHA insured mortgages, was sentenced to 6 months home detention to be followed by 2 years probation.

The speculator, along with two other individuals who have already been sentenced, submitted false employment and credit information and gift letters on behalf of himself and other strawbuyers who were not qualified for the mortgages. Losses to the Department were approximately \$250,000. This investigation was conducted jointly by the FBI and OIG.



A LONG ISLAND, NY real estate broker was sentenced to 5 years probation and \$50,000 in restitution for conspiracy to defraud HUD in a \$1.2 million mortgage fraud scheme involving multiple defendants. The broker, along with others, caused the origination of fraudulent mortgages to strawbuyers and others by providing false information to HUD. Losses to the Department exceed \$400,000. This investigation, conducted jointly by OIG and the Postal Inspection Service, was predicated on the receipt of fraud referrals from HUD's Quality Assurance Division.

Two BAY HARBOR ISLANDS, FL individuals were indicted on 59 counts of single family equity skimming, money laundering, bankruptcy fraud, mail fraud, racketeering, and criminal forfeiture. They allegedly assumed over 90 FHA insured and Department of Veterans Affairs (DVA) guaranteed properties by using more than 100 fictitious identities. They received over \$27,000 per month in rental income from the properties, but did not make any mortgage payments. The investigation also disclosed that part of the money from the scheme was laundered through the purchase of over \$1 million worth of real estate. The loss to the Departments is over \$4 million dollars. This was a joint investigation by the HUD and DVA OIGs.

Section 203(k)

A NORFOLK, VA real estate investor, who arranged for his wife to obtain \$500,000 in fraudulent Section 203(k) investor loans, pled guilty to conspiring to defraud the government. The investor provided funds to strawbuyers, including a company he controlled and a former employee, to purchase distressed properties at below-market prices. The strawbuyers then sold the properties to the investor's wife at inflated prices. She obtained the 203(k) loans to rehabilitate the properties. The strawbuyers subsequently returned their sales profits to the investor, allowing him and his wife to avoid their required cash investment in the properties and actually make an "up-front" profit from the property purchases. All of the loans are now delinquent. Repairs to some of properties have not been completed, in some cases over 3 years after closing. This was a joint FBI/OIG investigation.

In NEW HAVEN, CT, the OIG served subpoenas on New Hill Homes Limited Partnership, the New Haven Savings Bank and the partnership's accountants concerning New Hill Homes. In February 1994, the partnership defaulted on 48 mortgages insured under the pilot Section 203(k) Program in 1984. Since the default, the management agent for New Hill Homes has received more than \$1.9 million in Section 8 subsidies but has made no payments on the mortgage. The management agent may have used funds for other than project expenses while the mortgage was in default and the condition of the properties deteriorated.

Other Activities

In PHILADELPHIA, PA, the former executive director and the former relocation supervisor of the Logan Assistance Corporation (LAC), an entity funded by HUD to find replacement housing for residents of the homes that are sinking in the Logan area, were charged with accepting bribes and conspiracy. An electrical contractor/speculator pled guilty to paying \$57,000 in bribes to officials of LAC in exchange for their directing relocatees to properties the contractor owned. The properties were then sold to the relocatees at inflated prices. Many of these properties did not meet federal occupancy standards. This is a joint investigation by OIG Audit and Investigation, the FBI, and the IRS.

The owner of LFC Nationwide, Inc., in PHILADELPHIA, PA, one of the nation's largest service companies, was sentenced to 10 months confinement, 2 years supervised release and a \$10,000 fine. He previously pled guilty to submitting and/or assisting in the submission of false statements. The owner received \$119,000 for inflated debris removal costs submitted to lenders for foreclosed FHA insured property clean-outs. An investigation by the OIG, FBI, HUD and Department of Justice staff disclosed that the owner rigged the bid process by providing false and forged bid sheets. As a result, the owner agreed to and has paid a civil settlement of \$750,000 to satisfy the government's claims for damages and



civil penalties. Also, two other contractors pled guilty to wire fraud and were sentenced to a total of 10 years probation and 400 hours community service, fined \$40,000, and ordered to pay \$130,000 in restitution.

In October 1996, the HUD Mid-Atlantic District Inspector General for Audit (DIG) and Special Agent in Charge (SAC) hosted a ceremony to honor OIG, FBI, HUD, and Department of Justice staff who worked on this multi-year investigation of service companies and their subcontractors who protect and preserve foreclosed FHA insured properties until they are conveyed to HUD for sale or disposition. The HUD Inspector General and the U.S. Attorney for the Eastern District of Pennsylvania also attended to offer their congratulations and support. Both the DIG and SAC emphasized the total cooperation among the various agencies and individuals who participated in this major effort, which included criminal and civil proceedings, an undercover sting operation and ongoing support from HUD program staff.

A civil engineer in JAMAICA, NY, who fraudulently “sold” his home to his girlfriend in order to circumvent a mortgage foreclosure on the property, and later burned the property in an arson-for-profit scheme while his wife still resided in the home, was arrested by OIG Agents and U.S. Postal Inspectors. The engineer, a Guyanese national, was charged with making false statements, forged verifications of income and employment, and bogus W-2s in order to assist his girlfriend in obtaining a \$162,730 HUD insured loan to buy the property. This was a HUD Fraud Task Force case investigated by the OIG and the Postal Inspection Service.

Multifamily Housing Programs

A HUD employee in PHILADELPHIA, PA, was issued an official reprimand for creating the appearance of using public office for private gain, and creating the appearance of giving preferential treatment to a HUD client. The employee admitted attempting to initiate and carry on personal/social relationships with several clients, including a complainant. The client complained of receiving numerous phone calls during which the employee asked personal questions, and attempted to arrange face-to-face meetings. The employee also proposed a personal meeting to discuss a method of decreasing the client's mortgage payment by at least \$250 per month. This was an OIG investigation.

HUD insures mortgages to finance the construction or rehabilitation of multifamily housing developments. During this reporting period, OIG investigations uncovered false documentation, bid rigging, embezzlement, fraud, conspiracy, kickbacks, and obstruction of an audit.

The president and owner of a development company in STUDIO CITY, CA, was sentenced to 18 months in prison and ordered to pay \$350,000 in restitution for his role in devising and participating in a scheme to defraud and obtain money from HUD under the Flexible Subsidy Program. He received \$1.6 million in subsidy funds to repair three multifamily projects damaged by the 1994 Northridge earthquake, but used the funds to pay off personal debts, purchase a vehicle and a house, and enhance his personal trust fund. This was an OIG audit and investigation.

The former general partner and management agent of a HUD insured development in WINTER HAVEN, FL, were indicted on charges of conspiracy, false statements, and obstruction of an audit. The partner and the agent created and submitted false Section 8 housing assistance payment (HAP) forms for tenants who did not occupy the subsidized units. This resulted in a loss to HUD of over \$155,000. The defendants were charged with obstruction of an audit because they provided the false HAP forms to OIG Auditors, and withheld records from the Auditors after the audit began. The investigation was conducted by OIG Auditors and Investigators.

In PHILADELPHIA, PA, the last of three former officers of an affiliate of a realty management company, which manages



HUD assisted developments in several states, was sentenced in federal court for his part in a scheme to accept at least \$120,000 in kickbacks in return for awarding caulking and waterproofing contracts at HUD assisted projects in New York, West Virginia, the Virgin Islands and the Philadelphia area. The officer was sentenced to 12 months house arrest to be followed by 48 months of probation; he was also fined \$30,000. This investigation was conducted by the OIG, FBI, and IRS.

The former resident manager of an assisted housing complex in WESTPORT, WA, pled guilty to making false statements to HUD and was required to reimburse HUD over \$100,000 in housing assistance payments. An OIG investigation disclosed that the manager overcharged residents for rent and kept the extra money for herself. She also placed in apartments a number of her relatives who did not qualify for assistance and underreported their income.

Community Planning and Development Programs

In CASPER, WY, a settlement agreement was reached between FHA and the owners of Mountain View Apartments, a property which was sold by the Department to Salina Properties. Terms of the sale required that 20 units be occupied by low- or moderate-income persons. An investigation by the OIG and the HUD Office of General Counsel disclosed that the project owners had failed to comply with these terms. FHA terminated limited denials of participation against the owners in favor of the settlement agreement.

CPD Programs are designed to provide neighborhood revitalization, improved community facilities and services, and assistance for the homeless. OIG investigations of these programs disclosed cases of diversion and misuse of grant funds, submission of false claims, mail fraud, theft of government funds, and conspiracy.

In NEW YORK, NY, two directors of a not-for-profit HUD grantee were charged in a multi-count indictment with diverting more than \$660,000 in grant funds received from HUD and other federal and state agencies. One of the directors was also charged with filing false income tax returns with the IRS. The not-for-profit and a related organization have received \$7.1 million in special purpose grants from HUD since 1993. The funds, authorized by special Congressional appropriations, were intended to create and administer business outreach centers in targeted neighborhoods, and serve elderly Holocaust survivors and immigrants. Some of the funds were diverted to pay personal expenses of public officials, which included trips to Europe. The organizations drew down their funds by telephoning into HUD's Line of Credit Control System, which then transferred the money directly into their bank accounts. The directors then diverted the funds into a bogus company. This was a joint investigation by the U.S. Attorney's Office, OIG, IRS, Postal Inspection Service, and New York City Department of Investigation.

A second individual in CHICAGO, IL, pled guilty to filing false tax returns in a scheme to defraud various government agencies, including HUD, of at least \$5 million in grant monies earmarked for the homeless, handicapped and teenaged mothers. This individual was charged with underreporting his income and assisting others to underreport income from the Chicago Mental Health Foundation. Another individual previously pled guilty to bank fraud after diverting funds from bank loans to a private business. A fraudulent matching funds letter was submitted to HUD's Transitional Housing Program in order to obtain grant monies for this private business. The investigation, which was conducted by the OIG, USPS, IRS, and Postal Inspection Service, was initiated as a result of a 1991 OIG audit. Following the audit, HUD terminated the Foundation's grants and transferred them to the City of Chicago.

A LONG ISLAND, NY developer, who is also a former public official, pled guilty to diverting for his own use the proceeds of a \$250,000 community development loan for a HUD approved single family development. The loan subsequently went into foreclosure. The developer also pled guilty to filing a false corporate income tax return with the IRS. This investigation was conducted jointly by the FBI, IRS, OIG, Postal Inspection Service, and the U.S. Attorney's Office.



As a result of an OIG probe, the U.S. Attorney's Office issued formal demand letters to eight Montgomery County Housing Services contractors in PHILADELPHIA, PA. The contractors participated in and benefitted from the Community Development Block Grant-funded Montgomery County Owner/Occupied Program. The demand letters serve as official notice to the contractors who face, in total, over \$1 million in penalties and \$250,000 in damages for submitting false claims for work that was never performed or work that was performed in a substandard manner. The U.S. Attorney's Office is conducting negotiations toward monetary settlements.

In a related case in PHILADELPHIA, PA, a federal grand jury indicted a Montgomery County Housing Services inspector for falsifying inspection reports. The inspector allegedly stated in final inspection certifications that work performed on a number of rehabilitation projects had been inspected by him and was performed according to specifications when he knew these statements to be false. He faces a maximum sentence of 45 years incarceration and a \$2,500 fine if convicted on all nine false statement charges. This was a joint investigation by the FBI and OIG.

The former mayor of the Village of NATCHEZ, LA, was indicted on six counts of mail fraud and theft of government funds. A joint investigation by the FBI and OIG disclosed that the former mayor applied for and received \$75,000 in HOME funds for the rehabilitation of homes in Natchez. He then used the funds to rehabilitate the homes of relatives. No sentencing date has been set.

The former president of a Community Development Block Grant funded nonprofit agency in PHILADELPHIA, PA, was convicted of stealing approximately \$13,200 in travel funds and assisting a co-worker in obtaining an FHA insured mortgage under false pretenses. The mortgage was obtained by submitting false documents to the mortgagee. The co-worker and her real estate agent, who also was later employed by the nonprofit agency, pled guilty to making false statements prior to the trial. The mortgage in question ultimately went into foreclosure, resulting in a loss of \$51,200. This investigation was conducted by the FBI and OIG.

Section 8 Rental Assistance Program

Following an investigation by the FBI and OIG, the president of a siding company in BEAUMONT, TX, pled guilty to one count of conspiracy in a negotiated plea. He was involved in a scheme to solicit home improvement contracts backed by HUD insured loans. Certificates of completion were submitted to various lenders claiming the work was finished when it was not. The amount of loss to the government is still being calculated.

Although most rental assistance recipients use their assistance for its intended purpose, OIG investigations have found that some circumvent program regulations by obtaining assistance under false pretenses. These investigations may be conducted by Task Forces or by individual Special Agents.

Two employees of the Nassau County Community Hospital, LONG BEACH, NY, were sentenced after being convicted of defrauding the Section 8 Program. The individuals (husband and wife) made false statements about their annual incomes, and submitted forged verifications and affidavits of income. They were sentenced to a term of conditional discharge to last 12 months and ordered to pay \$21,038 in restitution to the Long Beach Housing Authority. Each submitted a check of \$3,000 as part of the restitution payment. This investigation was conducted as part of the New York Fraud Task Force, comprised of Agents of the FBI, U.S. Postal Inspection Service, the Secret Service, HUD and Social Security Administration OIGs, and the Special Investigation Bureau of the Nassau County District Attorney's Office.

Two former HUD assisted residents (a husband and wife) in SEATTLE, WA, were sentenced for making false statements to the King County Housing Authority concerning their income while they were participating in the Section 8 Certificate



Program. They received \$15,000 in rental assistance and \$30,000 in welfare benefits and food stamps to which they were not entitled. The husband was sentenced to 6 months in prison and 3 years supervised probation upon release. The wife was sentenced to 60 days home electronic detention and 5 years supervised probation. They must also pay \$41,826 in restitution. This was an OIG investigation.

In another instance in King County, a Housing Authority resident, who pled guilty to making a false statement, was arrested by U.S. Marshals and sentenced to 4 months incarceration, 4 months home confinement, 3 years supervised probation and restitution of \$15,705 to HUD. The former resident provided false information to the Authority concerning family composition and income. The resident failed to appear for sentencing in October 1996, at which time a motion for bench warrant was processed. This was an OIG investigation.

A former Section 8 resident in Norfolk, VA, was sentenced on federal bank fraud charges to 1 month in prison, 3 months home confinement, and 5 years probation, and was ordered to pay \$6,000 in restitution to a local bank. A joint FBI/OIG investigation identified the individual as a suspect in the negotiation of a fraudulent Section 8 check issued by a former Chesapeake Housing Authority supervisor. After the tenant initially lied to investigators regarding his negotiation of the check, further investigation identified the false statements he made to obtain over \$50,000 in loans for the purchases of new cars.

In ALEXANDRIA, VA, two former Section 8 recipients signed plea agreements following their July 1996 indictment on two counts of conspiracy and submitting false statements, which resulted in their receiving overpayments of approximately \$22,000 in Section 8 assistance. This case, which stemmed from an OIG investigation, was initially declined by an Assistant U.S. Attorney, in favor of a repayment settlement agreement between the recipients and the Fairfax County Housing Authority. The recipients previously entered into negotiations, but never signed a repayment agreement.

A DORADO, PR Section 8 landlord was indicted by a federal grand jury on 10 counts of conspiracy, mail fraud and false statements for his participation in a scheme to defraud the Municipality of Dorado Section 8 Program. The landlord was one of six landlords and officials of the Municipality's Section 8 Program who conspired to receive payments for "phantom" tenants and then split the payments. The Dorado officials and the other landlords have already pled guilty and paid over \$55,000 in restitution. The investigation was conducted by the FBI and OIG.

As a result of an OIG investigation in GREENBELT, MD, two individuals were indicted in U.S. District Court on five counts of submitting false statements to the government and aiding and abetting. One of the individuals, a former HUD Section 8 recipient, concealed her income as an IRS employee, misrepresented her true family composition, and used fictitious social security numbers. As a result, she received over \$36,000 in rental subsidies to which she was not entitled. Her son also concealed his income.

A bankruptcy tax examiner employed by the IRS in CHICAGO, IL, was indicted on eight counts of mail fraud and false statements. The individual was involved in a scheme to defraud HUD's Rental Assistance Program of over \$27,000 by failing to report her income from the IRS. This was a joint investigation by the OIG and the IRS Inspection Service.

A PITTSBURGH, PA Section 8 landlord and a resident, brother and sister-in-law, were indicted on one count each of conspiracy, embezzlement and false statements. In September 1990, they purchased a home. In November of the same year, the sister-in-law applied for and received Section 8 funds to live in the home she owned with her brother-in-law. Neither she nor her brother-in-law disclosed the ownership interest she had in the property. Between November 1990 and September 1995, the couple collected \$12,169 in Section 8 funds to which they were not entitled. This was an OIG investigation.

Following an OIG investigation, a Section 8 resident in PIEDMONT, AL, was indicted by a federal grand jury for making false statements to HUD to receive benefits. The resident allegedly defrauded HUD by not reporting her husband's income.



She received over \$8,000 in benefits to which she was not entitled.

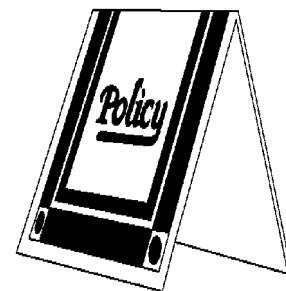
A Federal Grand Jury in MEMPHIS, TN, returned a six-count indictment charging three individuals, a mother and her two daughters, with filing false recertifications for Section 8 housing assistance with the Housing Opportunities Corporation (HOC). The mother, who was an employee at the IRS Service Center, failed to report the income of her two adult daughters. The two daughters then filed certified "zero" income statements with HOC. The loss to the government is \$6,420. This was a joint investigation by OIG and the IRS Inspection Service.

In LOS ANGELES, CA, a federal grand jury returned two indictments against a Section 8 recipient. The first was a HUD based indictment charging her with making false statements and mail fraud. The second indictment related to IRS charges involving conspiracy, bribery of a public official, filing a false tax return, false claims, fraudulent use of a social security number, and aiding and abetting. The investigation was conducted by the OIG, IRS Criminal Investigations Division, Postal Inspection Service and the Los Angeles Police Department.

OIG Agents, assisted by FBI Agents and members of the OMAHA, NE Police Department, executed a federal search warrant at the home of a Section 8 resident who was suspected of using a computer to print checks bearing account numbers of the Omaha Housing Authority. The search resulted in the arrest of the individual on a forgery charge. The search also resulted in the discovery of evidence that the resident used sophisticated computer equipment to manufacture social security cards, birth certificates, and checks drawn on the Housing Authority. To date, over 12 checks in excess of \$5,000 have been negotiated at local establishments.

Legislation, Regulations and Other Directives

Making recommendations on legislation, regulations and policy issues is a critical part of the OIG's responsibility under the Inspector General Act. This responsibility has taken on an added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this 6-month reporting period, the HUD OIG reviewed 187 legislative, regulatory, and funding notice proposals. This Chapter highlights some of the resultant HUD OIG recommendations.



Legislation

With the start of the new Congressional session, the OIG initiated several legislative proposals, based on prior audit and investigative work. We submitted our proposals to the various Congressional Committees and Subcommittees having jurisdiction for housing. These proposals focus on four areas:

- Improving program enforcement,
- Enhancing Operation Safe Home,
- Increasing accountability in federal assistance awards, and
- Reforming wasteful or ineffective features in certain programs.

Program Enforcement

In the area of program enforcement, we made seven proposals, the first two of which involve stronger penalties for multifamily equity skimming. We proposed that equity skimming be a predicate offense to the crime of money laundering. This would allow the government to more easily seize owner assets before they are hidden or made more difficult to attach, and would increase the penalties associated with this illegal practice. We also proposed amending the criminal equity skimming statute to make those convicted of equity skimming liable for all losses incurred by the Department. Currently, only a fraction of the financial losses are provided for in the statute. The third program enforcement issue relates to the splitting of management fees. We found that some multifamily owners charged their management agents a fee for the right to manage. We believe such a fee ultimately impacts the extent of services provided to residents and overstates the real cost of managing a project. We also believe a split fee is essentially a kickback scheme, enabling an owner to circumvent the Regulatory Agreement, which restricts when an owner can receive a distribution of profits. Accordingly, we have recommended that these schemes be specifically prohibited and violations be covered under the civil double damages statute.

The remaining four program enforcement legislative proposals involve extending the double damages remedy to cover single family equity skimming; expanding the obstruction of a federal audit statute to include audits of all FHA insured properties; giving the Department the authority to impose civil monetary penalties on independent auditors who perform deficient audits; and exempting HUD multifamily loan foreclosures and related actions from automatic stay provisions of the bankruptcy code.

Operation Safe Home

We made five legislative proposals to enhance the violent crime component of Operation Safe Home. The first proposal would give a firm statutory footing to the funding for witness relocation.

A second proposal was to allow for the retention of proceeds from asset forfeitures by the OIG. Through Operation Safe Home, the OIG has forged an effective partnership with the FBI, ATF, DEA, and other state and local law enforcement agencies. Most of the cooperating agencies in Operation Safe Home are authorized to share in forfeited assets. We would like the authority and opportunity to direct forfeited resources at targeted crime problems in public and assisted housing.



In a third proposal, we recommended a variety of amendments to the Public and Assisted Housing Drug Elimination Act of 1990. These changes would coordinate the objectives of the Act with Operation Safe Home. We also recommended easing the requirements that public housing agencies (PHAs) must satisfy in order to designate housing for exclusive occupancy by the elderly or disabled or both. We are concerned about the unstable environment brought about by mixing some elderly and disabled persons in the same public housing complexes. Lastly, we proposed that PHAs be required to exclude from their administrative grievance procedure any grievance concerning an eviction from public housing in any state which requires that, prior to eviction, a resident be provided a hearing in court, which the Secretary determines provides the basic elements of due process.

Accountability in Funding Awards

Two proposals were made to increase accountability in awarding financial assistance. The first proposal was to restrict the funding for settlement litigation. We found that the Department has set aside program funds for the purpose of settling litigation, and are concerned that such set-asides are inconsistent with Congressional intent and reduce the amount of awards available through competition. Our second proposal would improve accountability in the Notice of Funding Availability process. Our amendment is designed to put an end to HUD's arbitrary implementation of section 102(a) of the HUD Reform Act of 1989, by requiring compliance with its terms whenever HUD awards assistance, regardless of whether the program provides — by statute, regulation or otherwise — for the competitive distribution of the assistance.

Other Program Reform Measures

The next six legislative proposals included a variety of reform measures to correct features in certain programs, including:

- Eliminating investors as mortgagees under the Section 203(k) Rehabilitation Loan Program. OIG audits of this program have found that investor loans are high risk and subject to fraud and abuse.
- Placing a ceiling on the amount allowed for development costs not attributable to dwelling use in Section 220 mortgages. We believe that the absence of a ceiling unnecessarily increases HUD's insurance risk.
- Eliminating the need for a formal hearing before conditioning, reducing, or terminating current Community Development Block Grants (CDBG) as a sanction for past noncompliance with program requirements. We believe that HUD should have the authority to promptly stop funding or impose other corrective remedies, without having to await a hearing, when OIG audits report that grantees have expended funds for ineligible purposes.
- Revising the method for measuring benefit to low- and moderate-income persons in the CDBG Program to assure better targeting of funds. In meeting the 70 percent overall benefit goal, we believe that the actual benefit of each activity should be measured in meeting the goal.
- Revising the United States Housing Act of 1937 to require the Secretary to determine a feasible approach for developing a performance indicator to measure the quality of public housing.
- Relaxing the legal restrictions surrounding the disposition of excess HUD computers so that they can be more easily



Notices of Funding Availability (NOFAs)

donated and put to use by HUD program participants.

HOPE VI Program

This NOFA announced the availability of \$447.5 million in FY 1997 funding for the Revitalization of Severely Distressed Public Housing Programs, also known as the HOPE VI Program. As part of the draft NOFA's application evaluation factors, points were to be awarded for applicants' efforts in "affirmatively furthering fair housing." As described, however, this factor could have resulted in giving an unfair competitive advantage to applicants who had engaged in prior discriminatory practices and who were now under court ordered consent decrees in housing discrimination litigation. We also expressed concern that awarding such points could result in circumventing the intent of the Congress as expressed in HUD's FY 1997 Appropriations Act. The Act generally prohibited HUD from targeting HOPE VI funds to settle litigation or pay judgments.

We also commented that: (1) the draft NOFA appeared to be shifting the primary emphasis of the HOPE VI Program away from revitalizing severely distressed public housing, contrary to the intent of the Congress; and (2) the NOFA failed to provide for adequate controls to ensure that grantees did not unduly exceed total development cost limits.

In response to our comments, HUD revised its NOFA to: (1) reflect the FY 1997 Appropriations Act's prohibition against using program funds to settle litigation; (2) emphasize the revitalization aspects of the HOPE VI Program; and (3) incorporate clarifying language on grantees' incurrence of costs in excess of total development cost limits. The NOFA was scheduled for publication in the Federal Register during April 1997.

Drug Elimination Program

Public Housing

This NOFA announced the availability of \$290 million of FY 1997 Public Housing Drug Elimination Program (PHDEP) funds for use by public and Indian housing authorities in reducing or eliminating drug related crime in or around their housing developments. We provided HUD management extensive comments on the draft NOFA, covering a wide variety of matters. Among other items, we were concerned that the NOFA failed to reflect a close linkage between PHDEP and HUD's Operation Safe Home Program, despite the fact that both initiatives have common goals and objectives. We also indicated that the NOFA failed to emphasize the need for housing authorities to establish close working relationships with their local law enforcement agencies, and expressed concern over the NOFA's inequitable assignment of rating points to the four statutory PHDEP selection criteria. Further, in addition to pointing out numerous provisions in need of clarification, we reported that this nearly 100-page NOFA was extremely cumbersome, overly prescriptive, too detailed, and contrary to the Department's efforts to streamline its program funding processes.

In response to our comments, HUD incorporated language in the final NOFA to illustrate the close relationship between PHDEP and Operation Safe Home and to highlight the importance of housing authority efforts in establishing close working relationships with local law enforcement. Although HUD did not agree with us on the need to revise the NOFA to reflect a more equitable assignment of rating points to the statutory selection criteria, HUD did add needed clarifying language to such criteria. In addition, HUD completely revised and reformatted the NOFA to make it more understandable and user friendly to potential applicants. The NOFA was scheduled for publication in the Federal Register during April 1997.



Assisted Housing

This NOFA announced the availability of \$17 million of FY 1997 drug elimination grant funds for federally assisted low-income housing. This amount is a statutorily authorized set-aside from the annual appropriation for the PHDEP, and is provided through grants to owners of HUD assisted housing projects. We commented that the NOFA's application selection criteria could be improved by recognizing applicants' involvement in HUD's Operation Safe Home Program. In addition, we questioned the legality of one of the NOFA's selection criteria, in that it provided for awarding rating points to applications based on a project owner's activities and performance in "affirmatively furthering fair housing and equal opportunity" mandates. In this regard, the authorizing drug elimination statute provides that HUD's approval of drug elimination grant applications shall be based exclusively on four selection criteria, none of which relates to furthering fair housing and equal opportunity mandates. Consequently, we recommended that this criterion be deleted from the NOFA.

In response to our comments, HUD management added language to its final NOFA to recognize project owners' involvement in the Department's Operation Safe Home Program, and deleted the fair housing/equal opportunity selection criterion. The NOFA was scheduled for publication in the Federal Register during April 1997.

Technical Assistance

This NOFA announced the availability of \$2.8 million of FY 1997 funding for the Public and Indian Housing Drug Elimination Technical Assistance Program. The funding is provided to public and Indian housing authorities and their affiliated resident organizations. We questioned the feasibility and appropriateness of the cumbersome process outlined in the draft NOFA for selecting consultants to participate in the Drug Elimination Technical Assistance Program, the extensive involvement of HUD in the funding process, and the significant limitations placed on public and Indian housing authority applicants with respect to the selection and monitoring of participating consultants. We expressed concern that HUD was establishing a very resource intensive, bureaucratic procurement process for assisting applicants, particularly considering that the maximum funding per housing authority application was only \$15,000. We noted that HUD chose to administer this program primarily as a procurement program rather than a grant program, and that this likely resulted in providing for HUD's extensive involvement in the program. In addition, we commented that the NOFA failed to emphasize to housing authorities the importance of targeting their funds to establishing or improving working relationships with local law enforcement agencies.

In response, HUD stood by its decision to administer this program as a procurement activity rather than as a grant program; therefore, the NOFA was not revised to eliminate or reduce the Department's extensive involvement in the program. However, language was included in the final NOFA with respect to the targeting of funds to develop working strategies with local law enforcement agencies. The NOFA was scheduled for publication in the Federal Register during April 1997.

CIAP

This NOFA announced the availability of up to \$294 million of FY 1997 funding for the public/Indian housing Comprehensive Improvement Assistance Program (CIAP). Our major concern was the provision for setting aside 1 percent of the FY 1997 CIAP public housing allocation for carrying out goals relating to pending civil rights litigation, which was subject to judicial oversight. In 1995 and 1996, this set-aside amounted to nearly \$2.75 million and \$2.70 million, respectively. In this regard, we questioned whether HUD had the proper statutory authorization or administrative discretion to establish such a set-aside. Since our office could not reach agreement with the Office of Public and Indian Housing on this matter, it was elevated to the Deputy Secretary for resolution, who, based on a recommendation from HUD's Office of General Counsel, ruled that the set-aside would stand. The NOFA was scheduled for publication in the Federal Register during April 1997.

Family Unification Program

This NOFA announced the availability of up to \$65 million of FY 1997 funding for the Family Unification Program, which provides housing assistance to public and Indian housing authorities for allocation to families for whom the lack of adequate housing is a primary factor in the separation, or imminent separation, of children from their families. We commented that this NOFA needed clarification in several areas. For example, the NOFA referred to an application "pass or fail" threshold, but failed to adequately define its parameters. Also, it contained conflicting data on the funding being made available and the potential number of families that would be supported by such funding. The NOFA further implied that funding was to be awarded on the basis of a national competition when, in fact, applications were to be funded on the basis of a lottery. We also recommended that housing authorities with major unresolved management findings or significant program compliance problems, which proposed to hire outside contract administrators, be required to demonstrate in their applications how such findings and problems would be resolved by the contract administrators.

In response to our comments, HUD management revised the NOFA to add clarifying language to address our comments. The NOFA was scheduled for publication in the Federal Register during April 1997.

ED/SS and TOP Funding

This combined program NOFA announced the availability of \$62.225 million in grant funds for FY 1997 encompassing two programs, the Economic Development and Supportive Services Program (ED/SS) and the Tenant Opportunities Program (TOP). Of the \$62.225 million, \$19.975 million was for TOP. The Conference Report in support of HUD's FY 1997 appropriations bill stated that funds for the TOP were not to be made available for any purpose until the Secretary certified that the program was working effectively. The conferees indicated they were concerned about wasteful spending practices and allegedly fraudulent activities in the program. (It should be noted that the OIG conducted an extensive investigation of the National Tenants Organization in 1995/96, which led to Congressional hearings and the subject Conference Report provision.) As a consequence of the Conference Report language, HUD did not award any of the \$15 million of TOP funds appropriated for FY 1996. Rather, it carried such funds forward to the current fiscal year and combined the funds with the \$5 million of TOP funds appropriated for FY 1997, for award under the current NOFA. However, while the NOFA stated that HUD examined the TOP and found the program had major weaknesses, our office was never furnished with a copy of the report on HUD's TOP examination or apprised that HUD had ever issued such a report. Therefore, since we were not adequately assured that HUD had identified all the problems impeding the TOP, we were unable to determine if the Department's proposed corrective actions were appropriate.

We also questioned HUD's authorization for several ED/SS Program set-asides mentioned in the NOFA involving approximately \$4.3 million in funding. Over the past several years, the Department has been admonished by both Houses of the Congress for establishing set-asides for new program initiatives without first seeking and obtaining Congressional approval.

In response to our comments, HUD advised us that it would issue a report on its TOP examination and provide it to our office for review. We are currently awaiting receipt of this report. With respect to the questionable ED/SS funding set-asides, HUD advised us that it was a Departmental policy decision to establish these set-asides, and that it was considered to be in the best interests of HUD to do so. The NOFA was scheduled for publication in the Federal Register during April 1997.

Indian Tribes and Alaskan Native Villages

Emergency Shelter

This NOFA announced the availability of approximately \$1.265 million in FY 1997 funding for emergency shelter grants for Indian tribes and Alaskan native villages, as authorized by the Stewart B. McKinney Homeless Assistance Act. We questioned the NOFA's proposed application rating criteria because they involved rating applicants on the basis of



unclear and confusing levels of performance and potential capacities to administer grant activities. In our opinion, these rating levels could result in a wholly subjective and arbitrary process for evaluating the performance and potential capacity of applicants to administer their proposed activities.

In response to our comments, HUD decided not to revise the NOFA's application rating criteria because it was of the opinion that it had previous experience with such criteria and already had sufficient knowledge of potential applicants' capabilities to carry out the required grant activities. However, HUD stated that it would institute adequate controls to ensure applicants were rated accurately and fairly. The NOFA was scheduled for publication in the Federal Register during April 1997.

HOME

This NOFA announced the availability of up to \$21 million in FY 1997 HOME Program grant funding for Indian tribes and Alaskan native villages. We commented that the NOFA did not provide a sound basis for assessing the administrative capacity of Indian and Alaskan native applicants for HOME funds. We also stated that the point cut-off for application funding consideration was set too low, thereby potentially enabling weaker applicants to get funded.

In response to our comments, HUD added clarifying language to the NOFA to facilitate the Department's review of the potential administrative capacity of applicants, and raised the point cut-off level for funding applications. The NOFA was scheduled for publication in the Federal Register during April 1997.

CDBG

This NOFA announced the availability of approximately \$67.4 million in CDBG funds for Indian tribes and Alaskan native villages for FY 1997. Among other matters, we commented that the NOFA needed to be more definitive in holding the Area Offices of Native American Programs (ONAP) accountable for determining the adequacy of applicants' previous performance under the CDBG Program, the capability of applicants to carry out their proposed projects, and the reasonableness of project costs.

In response, HUD indicated that it had been successfully using the same application threshold factors since 1992; nevertheless, it added clarifying language to the final NOFA to ensure applicants' performance and capabilities would be rated accurately. HUD also revised the NOFA to address ONAP's reliance on the Department's existing Risk Analysis and Determination for Allocation of Resources (RADAR) system for determining the capabilities of Indian applicants to administer grant funds. The NOFA was scheduled for publication in the Federal Register during April 1997.

Family Self-Sufficiency

This NOFA announced the availability during FY 1997 of up to \$15 million for use by public and Indian housing authorities in funding Section 8 Family Self-Sufficiency (FSS) Program coordinators. We questioned HUD's rationale for allocating Section 8 FSS Program coordinator funds noncompetitively, without taking into consideration housing authorities' previous FSS Program coordinator performance and accomplishments, as well as their relative need for such assistance.

In response, HUD stated that it did not want to allocate FSS coordinator funds on a competitive basis due to the limited funds available for this purpose and the need to fund a sustained effort at housing authorities, particularly some of the smaller authorities. However, the draft NOFA was subsequently revised to provide for a certification by each housing authority that it had used its prior funding to hire a Section 8 coordinator and that it was making progress in implementing its FSS Program. Management stated that it would provide field offices additional guidance for reviewing housing authority



certifications and assessing their FSS progress. The NOFA was scheduled for publication in the Federal Register during April 1997.

Section 202 Capital Advances

The proposed Section 202 Program NOFA announced the availability of \$645 million in funding for supportive housing for the elderly. We nonconcurred in the issuance of the NOFA because selection criteria did not consider the costs of constructing and operating projects. While there are cost limitations for the program, all proposals within the prescribed cost limitations may not be equally cost efficient. Considering that the need for this type of housing far exceeds the funding available for the program, we would expect that the cost effectiveness of projects would be considered in selection.

The NOFA was still in clearance at the end of this semiannual reporting period. The proposed NOFA has been revised to address our concerns.

Continuum of Care

This proposed Continuum of Care Assistance NOFA announced the availability of \$600 million of program funds. The NOFA combines three separate grant programs under the Stewart B. McKinney Homeless Assistance Act into a single NOFA: Supportive Housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy. We expressed concerns with several aspects of this NOFA. First, the NOFA provided for special point consideration for settlement litigation tied to applications received from the Dallas Housing Authority. We questioned the legal basis for funding settlement litigations through the NOFA process, and referred the matter to the Deputy Secretary. The Deputy Secretary ruled the funding was appropriate. Secondly, we questioned the general language of the NOFA relating to assigning points for "special consideration." The language provided great flexibility in the selection of lower-rated applications over higher-rated applications. We nonconcurred because the vagueness of the language could render the rating and ranking process ineffective. Based on our nonconcurrence, this language was dropped from the proposed NOFA. Thirdly, we questioned how data would be used in measuring "relative need," a major point factor in the NOFA. The Department agreed to add language that would clarify how points would be assigned to this factor.

Youthbuild

This proposed NOFA announced the availability of \$30 million of grant assistance. The grants would be used by eligible applicants to provide economically disadvantaged young adults with opportunities to obtain education, employment skills and meaningful on-site construction work experience as a service to their communities and a means to achieve self-sufficiency; to foster the development of leadership skills and commitment to community; and to expand the supply of permanent affordable housing for homeless and low- and very low-income persons by providing implementation grants for carrying out a Youthbuild Program.

We nonconcurred with the proposed NOFA for several reasons. First, we questioned the need for the proposal to set aside 5 percent of the funds for emergency purposes because funds would be unnecessarily taken out of the competitive process. HUD staff agreed and removed the 5 percent set-aside. The proposal also sought to use a contractor to assist in the evaluation of applicant capability. Since this contractor would also provide technical assistance to grantees, we advised it would be inappropriate, as well as a conflict of interest, for this contractor to have any involvement in the evaluation process. HUD removed the contractor from the evaluation role. Lastly, we expressed concern over certain language in the rating and ranking process which would give too much flexibility to HUD in choosing lower-rated applications over higher-



Regulations

rated applications. Because of our concerns, the Department revised this language.

Mixed Finance Development

This interim rule was developed to streamline the current requirements for the mixed finance method of developing public housing units, and to extend this method to the Indian Housing Program. The rule was also designed to implement Section 14(q)(3) of the United States Housing Act of 1937, which authorizes an owner/entity in a mixed finance development to deviate from standard public or Indian housing management requirements under certain circumstances. We questioned the propriety of HUD's decision to extend the mixed finance development method to Indian housing as part of this interim rule, due to its limited experience in developing housing under this method. We also commented that the rule should contain appropriate controls and safeguards to prevent unreasonably high or excessive project development costs. We further commented that the procurement standards that housing authorities were required to follow in selecting their partners and owner/entities were too weak and open-ended. We also took issue with the potential for partners and/or owner/entities to award themselves construction contracts for projects, and for owner/entities to contract for goods and services on a noncompetitive basis with identity-of-interest parties. Furthermore, we commented that the rule failed to outline HUD's role in the processing of mixed finance developments and overseeing the program. We also provided HUD with many other comments of a technical nature.

We met with HUD staff in January 1997 to discuss our concerns. While agreement was reached on some of these concerns, HUD had not yet revised its draft interim rule at the end of this semiannual reporting period; therefore, we are not certain how the Department will ultimately address our concerns in finalizing the current interim rule.

Modernization Funding

This proposed rule would revise HUD's regulations governing the allocation of modernization funding under the Comprehensive Grant Program (CGP) by adding to the formula a factor that would maintain, for 5 years, a portion of funding that otherwise would be lost by a housing authority when the number of its public housing units are reduced due to demolition, disposition, or conversion. The added funds would have to be used for approved replacement housing. We questioned HUD's legal authority for revising the CGP formula allocation to provide for additional funding for mandatory replacement housing. Although the Congress added Section 14(q)(1) to the United States Housing Act of 1937 to permit housing authorities to use their modernization assistance for replacement housing (among other things), we questioned whether HUD could use the CGP funding formula in such a way as to implement what amounted to a replacement housing requirement. Also, because a defined percentage of modernization funds would be targeted to replacement housing in contrast to modernizing public housing, we commented that this could serve to perpetuate the current national backlog of unmet modernization needs.

In response, HUD was of the opinion that it could legally revise the CGP formula allocation to provide additional funding for replacement housing, citing Section 14(q) of the United States Housing Act of 1937 as being determinative. It



further stated that because of the relatively large number of public housing units undergoing or planned for demolition, there was a need to provide PHAS funds to replace some of these lost units.

Other HUD Directives

Designation of Public Housing Projects

Section 7 of the United States Housing Act of 1937 permits PHAS to designate projects for elderly families only, disabled families only, or elderly and disabled families. Section 10 of the Housing Opportunity Program Extension Act of 1996 amended Section 7 to provide PHAS more flexibility in designating such projects.

As reported in our last Semiannual Report, HUD, in response to Section 10, issued Notice PIH 96-60 on August 5, 1996. In commenting on this Notice, we advised HUD that, by requiring PHAS to prepare detailed demographic profiles and rationales for their designations and by limiting PHAS' flexibility in other areas, the Notice was imposing unnecessary administrative requirements on PHAS that may have exceeded the intent of the 1996 Extension Act's amendments.

In response to our concerns, HUD, on March 12, 1997, issued Notice PIH 97-12 to supersede PIH Notice 96-60. The new Notice streamlined the previous requirements concerning PHAS that planned to designate their housing projects pursuant to Section 7.

Access to NCIC Records

Section 9(b) of the Housing Opportunity Program Extension Act of 1996 amended Section 6 of the United States Housing Act of 1937 by adding a new subsection (q) that requires the FBI's National Crime Information Center (NCIC), police departments, and other law enforcement agencies to provide to PHAS, upon their request, the criminal conviction records of public housing applicants and tenants for the purposes of screening, lease enforcement, and eviction. On May 29, 1996, the HUD Secretary and Attorney General entered into an agreement regarding PHA access to NCIC data.

In response to the Section 9(b) amendment, in December 1996 HUD placed into Departmental clearance a draft Notice to implement its provisions. We questioned the propriety of the Notice because it omitted important provisions from the Section 9(b) amendment and did not accurately reflect its requirements. For example, the Notice focused almost exclusively on the conduct of criminal conviction record checks in connection with the screening of applicants for housing, with little emphasis of the use of such checks in connection with existing tenant lease enforcement and evictions. As of the close of this semiannual reporting period, HUD had not yet finalized the Notice.



On-Site Confirmation of PHA Performance

This guidebook was drafted to assist HUD's state/area office staff in performing on-site reviews to confirm the validity of PHAs' Public Housing Management Assessment Program (PHMAP) certifications, which are required to be submitted to the Department annually. PHMAP is HUD's response to Section 6(j)(1) of the United States Housing Act of 1937, as amended, which requires the Secretary to develop key indicators for measuring the performance of PHAs. Over the years, we have encouraged HUD to draft such a guidebook, due to the questionable accuracy of some self-certifications under PHMAP.

Although we commented that this guidebook was well drafted, we expressed some reservations about the capacity of HUD field staff to implement the guidebook's extensive and complex guidelines. Therefore, we recommended that HUD conduct training for its field staff to facilitate implementation of the guidebook. We also recommended that the guidebook be made available to non-federal auditors who routinely perform audits of PHAs, and who are responsible for performing certain compliance audit steps to verify the accuracy of PHMAP certifications. Further, we suggested additional conditions that might trigger the need for an on-site PHMAP confirmatory review, and recommended that the guidebook instruct state/area offices to include recommendations in their confirmatory reports directing PHAs to prepare improvement plans to address failed PHMAP indicators.

HUD responded favorably to our comments and suggestions and revised the guidebook accordingly. The draft guidebook was issued in final form on April 1, 1997.

FHA Neighborhood Underwriting Guidelines

Through Neighborhood Underwriting, HUD encourages coordinated program planning and implementation across all HUD programs in support of better neighborhoods and communities. These guidelines describe the new process by which FHA multifamily housing staff will achieve FHA's comprehensive goal of building better neighborhoods where mortgage insurance investments have taken place and will be taking place.

The OIG nonconcurred in the issuance of the guidelines because the processing instructions were directed primarily at newly proposed projects while projects already in the multifamily housing portfolio were most often omitted. Managing existing projects, especially those experiencing problems, under the concept of Neighborhood Underwriting presents a greater opportunity to better neighborhoods because of the substantial size of the portfolio and the dwindling number of new projects applying for mortgage insurance.

At the close of the semiannual reporting period, the guidelines remained in the clearance process.

Portfolio Reengineering

HUD's FY 1997 Appropriations Act authorized HUD to implement a portfolio reengineering demonstration program. The demonstration is designed to restructure the financing of projects that have FHA insured mortgages and that receive Section 8 rental assistance. This proposed Notice provides additional guidance on how HUD intends to carry out the program during FY 1997.

In nonconcurring in this proposed Notice, we indicated the need to consider the statute's goal regarding housing market conditions and minimizing tenant displacement; the plans for addressing other than financial problems effecting the viability of projects, such as maintaining decent, safe and sanitary affordable housing; the resident and community initiatives necessary; and owner incentives sufficient to ensure maintenance of the projects in a habitable condition.



The Notice was issued but did not address our concerns. In resolving the disagreement between OIG and the Office of Housing, the Deputy Secretary ruled in favor of the Office of Housing based on the reasoning that time did not permit the type of changes we were requesting.

Asset Management Fees

The purpose of this Notice was to provide nonprofit owners of insured multifamily projects with guidance on asset management fees that could be charged to projects for oversight responsibilities. Previously, the only fees permitted by HUD for nonprofit owners were property management fees. We nonconcurred in this Notice because of shortcomings in defining allowable activities, allowable fees and the requirements of the contract certification relating to improperly paid fees or increased costs, and the inability of the project to recover improperly paid fees.

In the Notice, allowable activities included several activities already performed by the project's management agent. There were no guidelines or instructions on how the asset management fee was to be determined. Instead, a range of \$10,000 to \$30,000 in allowable fees was provided. Without guidelines, we were concerned that the upper end of the range would become the standard. The certification required by the management agreement provides that improperly paid fees will be paid back to the owner. Since improperly paid fees are paid from project funds, repayments should be returned to the project. Further, given the nature of nonprofit entities, their ability to repay improperly paid fees would be questionable. It is the OIG's position that in order to protect assets, the nonprofit should be bonded similarly to other project employees, and the misuse of project funds should be identified as equity skimming. Finally, it is our position that the certification should state that fees cannot be split or shared with any persons or entities outside of the nonprofit organization approved to receive the fee.

At the close of this semiannual reporting period, the Notice remained in clearance.



Conversion of Coinsured Mortgages

This Notice provides instructions for conversion of coinsured mortgages to full FHA insurance, along with processing instructions for coinsurance claims for coinsurance lenders and HUD staff. At the request of a coinsuring lender, FHA may endorse a coinsured mortgage for full insurance if FHA is satisfied that: (1) continuing the mortgage under the Coinsurance Program could jeopardize the lender's ability to service the remaining coinsured portfolio; (2) the lender has made reasonable efforts to work out the mortgage; and (3) the conversion would be less costly to HUD than if the mortgage remained coinsured.

We nonconcurred in the issuance of this Notice because insufficient guidance was provided to determine whether the conversion would be less costly to HUD. The coinsured lender would be required to provide a brief explanation and documentation to allow HUD to determine that the conversion would be less costly to HUD. The instructions provided no basis or formula by which lenders were to make a meaningful cost analysis of the conversion, nor did the instructions describe the documentation to be submitted to HUD. Without detailed guidance for the cost effectiveness of the conversion, we believe that analyses would be ineffective and inconsistent. Also, the instructions required that the loan be in default for at least 6 months. We believe such a long waiting period would unnecessarily result in the further decline of the property and greater losses to HUD.

At the close of the semiannual reporting period, this Notice remained in the clearance process.



Rating Section 202 Loan Applications

The Notice provides guidelines for HUD staff when rating applications for Section 202 loans. We nonconcurred in the issuance of the Notice because of shortcomings in the guidelines regarding a sponsor's ability to operate housing on a long-term basis, and the sponsor's involvement of elderly persons in the development of the project. The Notice does not include specific provisions for evaluating the sponsor's ability to develop and operate comparable housing or provide supportive services. We believe that prior experience is important to the potential success of the project.

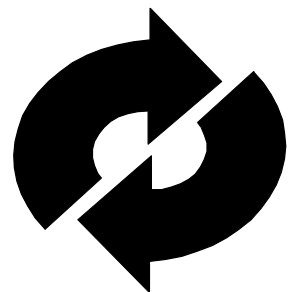
Secondly, bonus points will be awarded if the sponsor involves elderly persons in the development of the application and the operation of the project. The guidance is so vague that even insignificant contributions would result in the sponsor's being awarded bonus points. The guidance should define the level of involvement that would reflect that elderly persons had a meaningful contribution to the effort.

At the close of the semiannual reporting period, this Notice was still in the clearance process.

Audit Resolution

Audit resolution is the process by which the OIG and HUD management agree on the needed changes and the timeline for action in resolving audit recommendations. Through this process, we hope to see measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers.

This Chapter describes some of the more significant issues where actions on audits have been delayed, or actions were prematurely reported as complete. As required by the Inspector General Act, the final section of this Chapter discusses a significant management decision with which the OIG disagrees.



Delayed Actions

In support of the Secretary's commitment to reduce fraud, waste, and abuse affecting HUD programs, HUD's Principal Staff are exploring ways to focus greater attention on audit reports and the need for timely and meaningful action on audit recommendations. The situations described in this Chapter illustrate the extent to which such improvements are called for.

City of East Cleveland, OH, Community Development Block Grant Program

Issued October 17, 1995. The City's Housing Rehabilitation Program did not achieve its primary objective of correcting code violations. As a result, some homeowners were living in substandard homes where violations posed a danger to their health and safety. We identified incomplete, defective and duplicative work totaling over \$55,000. Further, the City could not document that activities performed by subrecipients and other City departments during 1993 and 1994 totaling over \$360,000 were eligible activities under the program.

Five months after the audit, management agreed that incomplete, defective and duplicative work needed to be corrected and payments totaling over \$55,000 needed to be repaid to the program. Management also agreed that the undocumented costs of over \$360,000 needed to be supported or repaid to the program.

Although the City requested a voluntary grant reduction for the \$55,000 of ineligible rehabilitation costs 7 months after report issuance, HUD has taken no action on that request. Further, no corrective action has been taken on the incomplete and defective work and undocumented supporting costs. Management is just beginning to plan to restrict current funding to bring the reported matters to closure. (Report No. 96-CH-241-1002)

City of New York, Department of Housing Preservation and Development (HPD)

Issued January 29, 1993. Three months after our report was issued, HUD management agreed that over \$22 million of ineligible costs should be repaid to the City's Community Development Block Grant (CDBG) Program. At the close of our last semiannual reporting period, HUD management demanded that \$5 million be repaid and deferred repayment of the remaining \$17 million pending further review. On March 21, 1997, the Deputy Assistant Secretary for Community Planning and Development met with Deputy and Assistant Commissioners from HPD to discuss repayment of the \$5 million. No agreement was reached and HUD management advised City representatives that the matter would be presented to an Administrative Law Judge (ALJ). Repayment of the \$17 million is still unresolved. Although HUD management agreed 6 months ago to contract with a specialist to determine if the costs were necessary and reasonable, the contract has yet to be executed. After 4 years of negotiation and discussion concerning repayment of ineligible costs, no payments have been made. (Report No. 93-NY-241-1002)



North Carolina Housing Finance Agency

(NCHFA)

Issued April 28, 1994. NCHFA's practice of requesting excess advances of Section 8 funds earned them over \$400,000 in interest income. The OIG requested NCHFA to return the interest income to the U.S. Treasury. As reported in our last Semiannual Report, the Assistant Secretary originally supported the OIG position, but 2 years later reversed his position that interest needed to be repaid. We referred the matter to the Deputy Secretary in July 1996 for final decision. Six months after the matter was referred, the Deputy Secretary agreed with the OIG's position. In December 1996, the Deputy Secretary directed the Assistant Secretary to have NCHFA repay the interest. In March 1997, NCHFA requested HUD's permission to delay repayment until July 1997 so the expenditure could be programmed into their FY 1998 budget. On April 10, 1997, HUD approved the NCHFA's request. (Report No. 94-AT-203/251/256-1017)

City of Baltimore,CDBG Program

Issued March 4, 1992. Over \$4 million of ineligible costs resulted from the City's not crediting the program for revenues generated by code enforcement activities. An additional \$600,000 in expenditures were unsupported. While HUD management originally agreed to seek repayment of ineligible and unsupported costs, 4 years after report issuance they reversed their position. At the close of the last semiannual reporting period, OIG elevated the matter to the Deputy Assistant Secretary for Grant Programs. The Deputy Assistant Secretary decided that ineligible and unsupported costs needed to be repaid and requested repayment. Five years after report issuance, no repayments have yet been received because negotiations on the method of repayment are still ongoing. The City is now proposing to credit an appropriate percentage of future code enforcement revenues to its CDBG account as an alternative option to repayment of the \$4 million. HUD management is reviewing the City's proposal; if the proposal is unacceptable, the matter will be referred to an ALJ. (Report No. 92-PH-241-1003)

Housing Authority of Baltimore City

Issued September 23, 1994. Serious procurement deficiencies were noted in the OIG audit, including the Authority's award of over \$25 million for noncompetitive vacant unit rehabilitation contracts through the Vacancy Special Funding Program. The OIG's inspection of a sample of the contracts found that the Authority paid more than \$700,000 for excessive materials, overpriced work items, and incomplete work. As a result of our audit, several former employees and contractors were indicted and convicted. At the close of the last semiannual reporting period, repayment was pending. In January 1997, 28 months after report issuance, HUD management no longer agreed that repayment was necessary. The OIG disagrees and has elevated the matter to the Deputy Assistant Secretary for Public and Indian Housing. (Report No. 94-PH-201-1016)

Michigan State Housing Development Authority

Issued November 10, 1993. Five months after report issuance, HUD management agreed that the Authority needed to establish controls over the \$7 million maintained in its subsidy reserve account. HUD provided the Authority time to develop an automated system to control and monitor amounts in the reserve account. The excess reserves could have provided assistance to about 193 additional families. As reported at the close of the last semiannual reporting period, 3 years after report issuance, the system was not completed and HUD had little assurance that funds were used in the most effective manner. According to HUD staff, the computer system is now operational. However, HUD is waiting for the Authority to provide written operational procedures before closing the recommendation. (Report No. 94-CH-203-1004)



Departmental Accounts Receivable Tracking/Collection System (DARTS)

Issued December 16, 1994. Six months after report issuance, the Chief Financial Officer (CFO) agreed to provide training and guidance to systems users in 1995 so that the system could be used as intended. The status of the recommendation has remained unchanged since our last Semiannual Report. To date, the CFO has not provided training or guidance to systems users because of reorganizations and changes in the process. HUD management is now proposing that during FY 1997, DARTS be one of 14 systems analyzed to determine the role that each will play in HUD's consolidated financial management plan. The analysis is part of the CFO's 1997 management plan, and is scheduled for completion by September 30, 1997. At that time, nearly 3 years after report issuance, no training will have been provided. (Report No. 95-IS-166-0001)

Housing Authority of the City of Las Vegas

Issued February 23, 1996. The Authority used federally assisted low-rent funds to support other non-assisted housing projects. This practice was first reported by the OIG more than 8 years ago. In 1989, we reported that the Authority had misused over \$6 million. Three years later, in 1992, we showed that the Authority continued to improperly use federal funds, increasing amounts due to over \$6.5 million. Seven years later, in 1996, we found that the improper practices continued, increasing the ineligible expenditures to over \$7 million.

Eight years later, in February 1997, HUD management and the Authority were finally able to negotiate a repayment plan in the form of a repayment lien agreement. It consists of two phases. The first phase requires the Authority to repay approximately \$3.3 million by selling miscellaneous properties and contributing other funding. The second phase calls for the sale of four non-aided senior housing projects to repay the remaining \$3.8 million toward the total \$7.2 million owed by the Authority. Sale of the properties is expected to be completed within 3 to 5 years. (Report Nos. 89-SF-209-1004, 93-SF-209-1801, and 96-SF-204-1003)

HUD Relationships with Nonprofit Organizations

Reopened Issues

Issued August 8, 1996. This report found that HUD needs to improve its management controls concerning its relationships with nonprofit organizations. For example, HUD has not developed an inventory of nonprofit organizations that it deals with and provides funds to, does not require proof and verification of the tax status of nonprofit organizations, and does not have clear procedures for dealing with nonprofit organizations. On January 30, 1997, we referred this report to the Deputy Secretary, since we had received no proposed management decision from lower-level responsible HUD officials. The OIG and HUD management are currently attempting to resolve this report. (Report No. 96-HQ-176-0802)

HUD management closes recommendations when they determine all corrective actions have been completed. Sometimes, OIG becomes aware of inappropriate closures during either special reviews, called corrective action verifications, or during subsequent audit work concerning the same issues previously reported. These reviews provide an element of quality control over the audit resolution process. Recommendations inappropriately closed are reopened and cannot be closed without our review, which means that HUD management must address the problems originally reported. Discussed below are significant recommendations where we found that HUD management reported closure before all agreed



to actions were completed or implemented.

Audits of Bond Refundings of Section 8 Projects

Corrective action verifications on two audit reports issued October 30, 1992, and April 30, 1993. The recommendations in these audit reports provided HUD opportunities for saving approximately \$278 million in Section 8 subsidies. HUD management reported closure of the recommendations without implementing the necessary actions that would result in savings. While the over 4-year delay in implementing recommendations has lessened the potential savings, significant savings are still possible if HUD prohibits project owners from receiving rent increases based on rents which include financing adjustment factors. (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

Audit of HUD Consolidated Statements, FY 1996

Issued April 10, 1997. This audit resulted in the reopening of several recommendations previously reported as completed.

Resource Management. Recommendations concerning resource management date back as far as our Consolidated Financial Statement Audit for FY 1991. The recommendations required HUD to develop a systematic approach to determine staffing requirements; hold HUD staff accountable for work accomplishments based on available resources; and realign staff based on improved efficiencies. HUD management reported closure based on the development of a "Strategic Performance System" and assigned responsibility for resource management to the Assistant Secretary for Administration.

The Office of Administration completed actions under their control to address the material weakness and our audit recommendations by developing a tool kit designed for optimizing resource utilization. However, each cylinder is responsible for implementation and actions have not been fully implemented. One person(s) needs to have clear responsibility for overall management of the Department's operations so that administrative and programmatic decisions are reinforcing and consistent across program cylinders. The Department's actions are currently fragmented and inconsistent from cylinder to cylinder and resource management/allocation is not tied to the budget and program priorities on a Departmentwide approach. Further, our audit work and discussions with field staff continue to attribute lack of performance to a lack of resources. Clear responsibility for overall management of the Department's operations is needed so administrative and programmatic decisions are consistent across program lines. Only with appropriate staff resources and management goals can individual managers be held accountable. (Report No. 92-TS-179-0011)

Automated Systems Security. Proper security and access controls over HUD's financial system applications are needed, as reported in the Consolidated Financial Statement Audit for FY 1994. Security management provides assurance that funds, property, and assets are safeguarded from waste, loss, unauthorized use or misappropriation. Management agreed to bring all application systems under the control of a security package (CA-Top Secret or SIMAN). However, five HUD sensitive application systems are still not fully protected under Top Secret. (Report No. 95-FO-177-0004)

Community Planning and Development's (CPD) Oversight of Grantees. A process to confirm the validity of performance information reported by grantees is needed, as reported in the Consolidated Financial Statement Audit for FY 1994. HUD provides significant grant funds to state and local governments through its CPD Programs. In 1995, CPD set forth a process which is aimed at measuring and improving grantee performance. The process is designed to help grantees improve their performance and ensure that funds are expended for eligible activities and individuals. One important step in the process calls for reviewing and validating performance reported by grantees. Another step includes assessing each grantee's accomplishments and comparing them to planned actions. We found that confirmations and assessments were either not done, not adequately documented, or not performed timely. Efforts to implement a new process were, in many cases, delayed due to two government shutdowns and an unplanned Internet project. A new process is scheduled for implementation in FY 1997. (Report No. 95-FO-177-0004)



Audit of FHA Financial Statements, FY 1996

Issued March 10, 1997. This audit resulted in the reopening of recommendations concerning Secretary held mortgage notes previously reported as completed by management. FHA reported closure of recommendations based on the initiation of a sales strategy to substantially sell all the loans in HUD's 1994 portfolio. Portfolios were so large that FHA's ability to conduct loss prevention functions was compromised, thus increasing the risk of loss to the FHA fund. The reduction of 58 and 24 percent in the respective unpaid principal multifamily and single family note portfolios has not been sufficient to offset loan servicing resource weaknesses. While Secretary held mortgage notes have been reduced, FHA needs to continue to pursue an aggressive sales strategy to reduce the portfolio to one that can be managed with available resources. (Report Nos. 93-FO-131-0003 and 92-TS-119/129-0007)

St. Croix Chippewa Housing Authority

Disagreed With Management Decisions

Issued November 1, 1995. A corrective action verification resulted in the reopening of two recommendations. The recommendations concern the implementation of collection and eviction procedures and the requirement that formal repayment agreements be executed with delinquent tenants. Although the Authority revised their policies and procedures, they did not fully implement the revisions. Eighteen months after audit report issuance, the Authority is still not collecting past due accounts or building effective eviction cases against uncooperative tenants. (Report No. 96-CH-202-1006)

Section 5(a)(12) of the Inspector General Act, as amended, requires that the OIG report information concerning any significant management decision with which the OIG is in disagreement. During the current reporting period, there was a significant management decision made with which the OIG disagreed. The decision concerned the audit on the Housing Authority of New Orleans, Procurement of Resident Initiatives, issued in July 1996, involving two contracts totaling \$15.5 million.

We strongly recommended that the former HUD Secretary not approve a \$5.5 million contract to outsource the Authority's resident initiatives, and cited three primary reasons: the history and status of the Authority; the need for HUD to portray itself as a wise and impartial overseer of scarce resources; and the rationale underlying federal procurement regulations.

On February 8, 1996, HUD and the City of New Orleans executed a Cooperative Endeavor Agreement that allowed HUD to assume the duties of the Authority's Board of Commissioners. The Agreement provided for the appointment of an Executive Monitor to act for HUD. On May 16, 1996, the former Secretary approved an Authority request to award two sole source contracts with the Executive Monitor's employer, Tulane University. In a letter justifying the action, the former Secretary stated that the University was in a unique position to implement a successful Resident Initiatives Program expeditiously. HUD program personnel had recommended the former Secretary not approve the arrangement.

We also recommended that HUD reevaluate its grant award to Tulane University for the Campus Affiliates Program. This contract totals \$10 million. Similar to the Resident Initiatives Program, no other providers were solicited. According to the Executive Monitor, the Campus Affiliates Program is an outgrowth of a program that was referred to in the Cooperative Endeavor Agreement, so HUD should fund it. However, the Campus Affiliates Program objectives seem comparable to the objectives of the Resident Initiatives Program. Considering the pressing basic need for housing that is decent, safe, and sanitary, we question whether the Authority should have dedicated so much of its limited resources to



resident initiatives. Even with the former Secretary's approval of a noncompetitive procurement, the Authority did not address, as required by the Code of Federal Regulations, why competition was not feasible before proceeding with the procurement.

Also, while the Secretary had the authority to waive procurement regulations, the waiver was not published in the Federal Register as required. The former Secretary also waived the conflict of interest that exists on the part of the Executive Monitor due to his position at Tulane (he has the dual function of performing and monitoring the contract). The former Secretary responded to our report at a Congressional hearing held in New Orleans on July 8, 1996, during which he stated the Executive Monitor was aware of the conflict potential and would conduct himself so as not to present even the appearance of impropriety. He also stated that the arrangement was intricate and unorthodox, and accepted full responsibility for structuring the arrangement. In our opinion, the arrangement is not in the best interests of HUD or the Authority and conflicts with federal procurement regulations. (Report No. 96-FW-201-1802)

